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Shi Yuzhu: China's giant among entrepreneurs



FT Interview

Eddie George in upbeat mood



Media Futures

Pick of the year's cyberquotes

Juppé

offers to

reduction

Mr Alain Juppé, the French prime minister, last night

pledged to discuss a reduction in

working hours and new steps to boost youth employment at a

meeting this week to appease

Mr Juppé, speaking on national television, also vowed

to discuss ways to boost eco-nomic growth and review the

social security system, to answer

what he said was the fundamen

tal question of the French: "Will

As signs grew that strikers

were returning to work in large numbers, one of the leading

trade unions expressed some sat-

isfaction with the prime minis-

ter's suggestions. However, the

Patronat, the French employers

federation, expressed doubts about the "social summit" sched-

uled for Thursday.

Mr Marc Blondel, head of the

Force Ouvrière union, said Mr

Juppé's comments meant "we

are heading in the right direc-

But Mr Blondel and Mr Louis

Viannet, head of the Communist

leaning Conféderation Générale

de Travail, have called for a

broader agenda, including a review of salary levels. Mr Vian-

Mr Juppé said the summit was

France's striking workers

my children find jobs?"

in hours

discuss

MONDAY DECEMBER 18 1995

Aerospace faced collapse: Today it is one of the most How did it do it? Find out in a special seport, today (Page 7) and tomorrow

Partial victory for **Germany in EU** accession talks

Germany won a partial victory in its drive to speed European Union enlargement negotiations with central and eastern European countries. After a two-day summit in Madrid, EU leaders pledged to treat all applicant countries on an equal footing. holding out the prospect of spening negotiations early in 1998. Cyprus and Malta have already been promised accession talks. Page 18

Roh's \$370m bribes trial opens: Former South Korean president Roh Tae-woo and eight business leaders go on trial for corruption today in Secul. Mr Roh is accused of accepting \$370m in bribes from 35 industrial conglomerates, Page 5

Austrians wote for no change: Austria's conservative People's party, which provoked the country's second national elections in 14 months, failed to displace the Social Democrats as the country's dominant political force. Page 18

Israel and Syria to resume talks: US secretary of state Warren Christopher returned to Washington after arranging a resumption of peace talks between Israel and Syria following a sixmonth stalemate. Page 4

Greenbury to stay on at M&S: Sir Richard Greenbury, 59, said be would remain chairman of UK retailer Marks and Spencer for at least three years, but no more than six. Page 19; The chairman

French bank plans 40% cut in costs: Specialist French property bank Crédit Foncier de France plans to cut operating costs by up to 40 per cent as part of a restructuring plan to help tackle its financial difficulties. Page 20

Tax charge hits BHP profits: Confronted by slowing economies and a rising tax charge, Breken Hill Proprietary, Australia's largest company, reported interim net profits of A\$876m (\$654m), compared with A\$1.07hn a year ago. Page 20

British Gas to name North Sea negotia British Gas is to name a prominent businessima this week as its special negotiation make ground dispute between the company and North Sea 23 producers over £40bn (\$63bn) worth of long to

Bankers Trust socies to self Crach shares Bankers Trust, the US bank which bought so per-cent stakes in two large Czech veucker funds last week, moved to sell on the shares to western institutional investors. Page 19

Red Sea shipping under threat: Yemen, accused Eritrea of attacking its troops on a dispu-Red Sea island, threatening shipping is the gliai waterway. Page 4

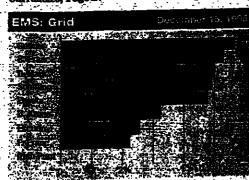
Dasa pledges Fokker guarantees: Dentsche Aerospace of Germany said it would continue providing financial guarantees to Fokker, its troubled Dutch regional succraft unit, while rescue talks with the Dutch government continue. Page 19

Kimberly Clark offers divestment: Kimberly Clark which last week took over its rival US tissue maker, Scott Paper, offered to divest 25 per cent of its expanded UK capacity to help secure European Commission approval for the merger. Page 6

Ritkind warns Eurosceptics: UK foreign secretary Malcolm Rifkind warned Conservative Eurosceptics they would be "shooting themselves in the foot" if they voted against the government in tomorrow's knife-edge vote on fishing policy. Page 6

Rain stops play in third test: Rain prevented play on the fourth day of the third cricket test between South Africa and England at Durban. With one day remaining. England are 152 for five, 73 runs, behind the South African first innings total of 225.

European Monetary System: In a week which saw all the EMS member countries lower interest rates, the order of currencies in the EMS grid was unchanged. The spread between strongest and weakest currencies was also substantially unchanged. The German discount rate fell to 3 per cent, down from 8.75 per cent in September 1992. Currencies, Page 27



The chart shows the member currencies of the cies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the wilder which more in a 2.25 per cent band.

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Yeltsin says Russian PM will retain job after poll

John Thornhill in Tule and Matthew Kamineld in Kalininyets

Russians voted in larger than expected numbers yesterday in the parliamentary elections, as President Boris Yeltsin insisted he would not replace Mr Victor Chernomyrdin as prime minister

whatever the outcome.

Political analysis expected that
a higher turnout would favour Mr Chernomyrdin's Our Home is Russia bloc, but early returns suggested that communists and nationalist candidates had polled well in the far east. The national turnout was fore-

cast to be about 56 per cent, up from 54.3 per cent in the 1993 parliamentary contest. But Russians and their leaders were divided over the longer-term significance of yesterday's poll and presidential elections next June. Voting in Barvikha, an enclave of the Russian elite 10km from Moscow, Mr Yeltsin vowed that the elections would not alter Russia's political course. Looking vigorous after his recent heart trouble, the president said he would not abandon economic

But other reformist Russian politicians vesterday attacked the government for creating the con-Mr Gennady Zynganov, the comised to create a powerful coali-tion bloc in the new parliament when it convenes next month. In Tula, an ancient city some

200km south of Moscow, many of the predominantly elderly voters favoured Mr Zyuganov's policies, which include help for the region's hard-hit defence plants and better living conditions. Mrs Maria Penkova, a pensioner, said: "Mr Zyuganov is not only a com-munist, he is also a businessman who has wide experience and wants people to live better."

Another pensioner disagreed:
"The communists are the same

as always. I have voted for Gaidar [leader of the reformist Russia's Choice grouping]. He is a reasonable man and the most intelligent person I have seen on Tula's local hero was Mr Alex-ander Lebed, the charismatic retired general who is standing

as a candidate in the district and is a leader of the nationalist Congress of Russian Communities (KRO), which had been a preelection favourite. One middle-aged woman said that she had supported Mr Lebed

because he was a strong character who could lead Russia out of its corrent crisis. "I have voted for a military

man whom I respect and who will stop people being killed in



upady Zyuganov, who has been confident of a victory for his Russian Communist party, leaves a Moscow polling station after casting his vote yesterday 50km west of Moscow. Although

Chechnya. I lost my son there,"

The military vote could be significant to the outcome, with more than 80 per cent of Russia's 1.5m military personnel able to participate in the ballot.

Mr Lebed's opposition to the unpopular Chechen War and promise to overhaul a demoralised military also proved popular among soldiers from the large Tamanskaya tank division voting in Kalininyets, a village about

hardliners seemed to be the army's favourites, there was a surprising diversity of opinion. Mr Vladimir Belov, a 19-year-old sergeant from Perm, cast his ballot for the Women of Russia Party because, he explained, the group wants to reduce the military service requirement from two years to 18 months.

Russian soldiers in Chechnya

war began in the breakaway region just over a year ago, but Russian officials insisted that the election there had been a success. Russian authorities said more than 70 per cent of eligible voters in Chechnya had participated in Thursday, and that Mr Doku Zavgayev, Moscow's appointee, was likely to be elected as regional

yesterday took part in some of the heaviest fighting since the

net also called for further demthe polls, which opened on not the right forum for salary discussions, and defended his leader. However, independent observers said few people opposition to demands by the striking unions to hold the sum-

mit before December 21, saying that it needed to be adequately Mr Jean Gandois, head of the Patronat, yesterday said he had still not decided whether he would participate in the summit. salaries, and also argued that subjects such as youth unemployment would be better dealt with "In calm, rather than during a period of crisis".

In letters to the unions on Saturday, Mr Juppé confirmed the government's climbdown on

Continued on Page 18 High price, Page 3 Observer, Page 17

long Kong newspapers closed by price war

Hong Kong's newspaper indice war claimed its first serious casualises at the weekend when two well-known Chinese language dailies closed with the loss of 550 jobs: The owners of the Express

newspaper, the bigger of the two, and the pro-Taiwan United Daily News said they were not pre-pared to sustain losses indefipitely. Mr Howard Gorges. a director of South China Group, which owns the Express, forecast that the price war would be bloody, messy and prolonged".

closed the Express, he said: "We just felt that we could continue to pour money into the paper and in three months' time still not know where we are." Mr Gorges predicted that the

price war would envelop Hong Kong's quality papers. 'It is not going to be just a fight at the popular end of the market, eventually it will involve all," he said

Eight days ago the Oriental Press Group cut the price of its flagship Oriental Daily News to HK\$2 from HK\$5. Oriental Daily News is thought to be Hong Kong's higgest selling newspaper with an unaudited circulation of

Oriental's move was directed at Apple Daily, a new popular Chinese language title launched by flamboyant entrepreneur Mr Jimmy Lai this summer, to which it is has lost readers. Apple claims an unaudited circulation of 300,000.

To date the fight for readership has centred on Hong Kong's tabloid and mid-market dailles. Rumours were circulating last week that Ming Pao, the leading quality daily, was considering a price cut. Sing Tao Daily News. its main competitor, has the situation under constant review. The Express, which has a staff

of about 400, did not cut its HK\$5

cent of its circulation last week. author a suspended two-year jail This took it below 100,000 for the sentence in China.

The disappearance of the first time in years. The Express was a mid-market United Daily News, which employs 150 and which is owned paper that had produced two notable exclusives: a leak of the by private investors, will be a particular loss to the authorities in Taipei. It is the last draft of the 1984 Sino-British Joint Declaration, and the text of Communist party chief Jiang pro-Taiwan paper in Hong Zemin's address to the 14th con-Kong, which reverts to maingress of the party in 1992. The land Chinese control in 18 latter revelation secured its

THE BANK IN THE HEART OF EUROPE



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BP agrees \$3.5bn deal to develop Algerian gasfields

Robert Corzine in London

British Petroleum has reached an agreement with Algeria's stateowned off and gas company on a \$3.50n partnership contract to develop gasfields in a remote desert area 1,200km south of Algiers. After two years of negotiations, yearerday's scheduled signing with Sonatrach ran into a legal hitch within the Algerian govern-

ment.

il is puderstood the delay is ower a government decree on resource exploration which both BP and Sonatrach expect to be passed in the next few days. passed in the next new ways.

BP officials say they are confi-dent the project is viable in spite of the bloody, four-year struggle between Algerian security forces and Islamist relitionts. The Islamist leadership has not encouraged militants to target the energy

sector, which it considers to be Algeria's economic lifeline. A unique feature of the deal, Sonatrach's largest föreign joint venture, is the setting up of a joint marketing company to sell gas in Europe. HP is expected to

bear about 65 per cent of the project's costs and is entitled to already relies on energy exports about a third of the profits.

BP said the contract with Sonatrach was intended to last for 20 to 30 years. BP will explore and appraise gas fields jointly with Sonatrach for the first 2% years, with the total cost of \$100m being borne by BP alone.
If sufficient reserves are found,

BP and Sonatrach will enter a second five-year phase of drilling and building infrastructure, including a pipeline to Hassi R'Mel, Algeria's main gasfield north of In Salah. -The oil and gasfields, sheltered

usually repaired within a day. Western security analysis no longer fear an Islamist military takeover of the country, although the risk of attacks on the oil and gas sector remains. But they are

confident such attacks are unlikely to cause widespread and Civil narest has not deterred

for 95 per cent of foreign exchange earnings. Sonatrach is oil enhancement recovery deal with Atlantic Richfield of the US. The BP deal falls within the

company's strategic commitment to develop its gas production, mostly out of the North Sea, and marks its first foray into the European gas market.

*BP will have had to have

taken a deep breath before going into this deal," said Mr James Ball, managing partner at Gas in the south, are under heavy sultancy. But it means that BP guard. Although pipelines are has grown up as a gas commany."

periodically subotaged, they are Algeria ranks eighth in the world in terms of gas reserves and is the second largest exporter of liquefied natural gas. It pro-vides 68 per cent of Spain's gas needs and 25 per cent of France

and Italy's. RP expects production of 10bn cubic metres from the new gasfield, starting in 2002 at the earliest. Once the dry gas is produced. international companies from it will be transported to southern

seeking contracts in relatively Europe via a new pipeline. Media Rubras . Managed Funds 28,29

By Lionel Barber



credibility of monetary union. The ultimate fate of Emu hangs as much on events in France as on the slowdown in the European economy. But the Madrid agreement on a name for the single currency and a blueprint for its launch on January 1 1999, makes it harder to doubt the political itment to the project.

On Friday, a dramatic opening exchange showed how Emu is drawing a line between a wavering Britain, a committed German-led hard currency bloc, and a huddled rump who hope to squeeze through the door when EU leaders decide in early 1998 on which countries qualify for membership.

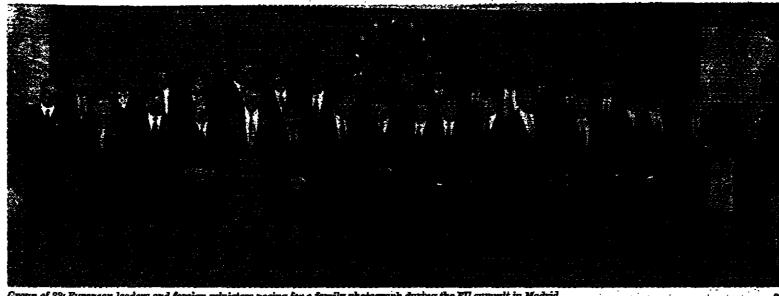
Mr John Major, British prime minister, highlighted the political difficulties inherent in Emu. He spoke of countries forming elitist groupings, the risks of trade wars, and huge budgetary transfers likely to be needed to cope with the strains of a fixed currency regime, both for those inside and out-

Chancellor Helmut Kohl immediately weighed in. Half-jokingly, he chided Mr Major for being a pessimist. Then he called on colleagues to draw inspiration from the leaders of Serbia, Croatia and Bosnia-Hercegovina, who, just the day before in Paris, had buried their doubts and reached

Shot in arm

for embattled

Spanish PM



Group of 32: European leaders and foreign ministers posing for a family photograph during the EU summit in Madrid.

ests of peace. Monetary union is a necessary step toward eventual political union said Mr Kohl, adding that "political union is about freedom and peace". This is the chancellor's big pitch, the antidote to resurgent nationalism, American isolationism, and Russian collapse. In the words of one EU diplomat present: "Kohl blew Major away."

But another diplomat was less harsh, "Major's presentation was calm and reasonable. Many people agreed with him about the problems [with Emu] but the trouble is that he isn't offering any solutions."

Mr Major's hands are tied because of his ever-dwindling majority in the House of Commons. Yet on the admittedly minor matter of the new name for the currency, several delegations said "florin" could

have triumphed over the unindent Jacques Chirac first camspiring "Euro" had Britain been able to press its merits; but to have done so would have provoked uproar in the

The question is whether Brit-

paigned for the Ecu and finally gambled on an EU-wide poll for a name. Mr Kohl replied that 80m Germans "and a few sympathisers" in other countries would simply vote for the

Germany's Chancellor Helmut Kohl half-jokingly chided Britain's John Major for being a pessimist... In the words of one EU diplomat present: 'Kohl blew Major away'

ish prevarication is worsening the political vacuum inside the EU, created by weak governments from Austria and France to Greece, Italy and Spain. Once again, French indecision and unpredictability was a summit feature. Presi-

D-Mark. Mr Chirac is also merrily continuing his fend with Mr Lamberto Dini, the Italian This time his bête noire was

In this sense. Mr Kohl's critinot the weak lira, just the cism of the European Commis-United Nations, along with

stewardship of Mr Jacques Santer. However much Mr Kohl shares British concerns sary EU-legislation, he, unlike Mr Major, would like to rein-force the authority of the Commission president. Not everything, however, went Mr Kohl's way. On enlargement the chancellor's hopes of pencilling in Poland, the Czech Republic and Hungary as members of the first wave of applicants foundared on objections from the Nordics and France.

Eastern enlargement remains a strategic priority for Germany, particularly Poland's memberahip. It is integral to Mr Kohl's vision of Germany bedded down in a united

Compromise on expansion By Caroline Southey in Madrid Siding with France were Fin-mid-1997, to coincide with the start of negotiations with

can go home this evening

knowing that the EU is com-

pletely open to them, and

equally open to them. The rest is up to each individual coun-

try, said Mr Hervé de Char-

ette, French foreign minister.

This even-handedness was

reeted with disappointment

"I had hoped they would be more precise," said Mr Ozes

Olesky, the Polish prime min-

ister. "In my heart I know that

Poland, Hungary and the

Mr Felipe González, Spain's embattled Socialist prime minister, must be feeling better after the Madrid summit.

Showered with praise from other EU leaders for his conduct of events, he is set today to end months of speculation about his own election plans. Until recently, conventional wisdom had it that he would not run as a candidate for prime minister in the early elections scheduled for March

Having kept the country in mit, he now seems almost certain to announce that he will, after all, be standing in his seventh election campaign.

He has won the last four times, but the Socialists have now fallen well behind in the opinion polls. The party's executive committee, meeting today, will press him to carry on, brushing aside a recent call for a change of leadership by a group of well-known Socialists, known as the "Manifesto of the

Mr Gonzalez is not prepared to make an active bid to have his face once more on the campaign posters. He knows many voters are impatient to see the back of him, but seems likely to be persuaded in order to avoid an even greater loss of Socialist support.

Mr José Borrell, public works, transport and environ-ment minister, is a potential substitute, but it is late in the day for anyone to fill the Gonzalez gap. "It is the party that has to take the decision." Mr González said after the summit. Not only are fellow Spanish Socialists urging him on, but also fellow EU leaders.

Having taken Spain into the Community in 1986, he is one of the longest-standing participants in European councils. France's President Jacques

Chirac had no hesitation in volunteering support for anally of his Socialist predecessor. Mr François Mitterrand. Tirst of all, brave to the Spanish presidency," he proclaimed. Germany's Chancellor Helmut Kohl, doyen of the EU leaders' chih, said the summit had been "quite extraordinarily successful" and acknowledged the "great efforts" made by the Spanish.

thank them." he said. Mr González' determination not to hold elections before completing Spain's six-month though his party can no longer count on rallying a majority in parliament, has enraged politi-

cal opponents. The presidency has managed to complete most of its heavy gramme for the single currency, doing the groundwork for next year's Intergovernmental Conference, and securing a series of political and eco-

The last three weeks have seen the signing of the Euro-Mediterranean accord, the New Transatlantic Agenda for EU-US relations and, last Friday, the agreement with Mereosur, the four-nation Latin American customs union.

They have also seen Mr Javier Solana, Spanish foreign minister, projected somewhat unexpectedly into the post of Nato secretary general in Brussels. He starts work there tomorrow. For him, at least, the presidency has been mirac-

land and Sweden, tenaciously The Madrid summit's formula fighting any relegation for the Baltic states.

for dealing with the EU's enlargement is a classic compromise. It brings the eastern and central European countries closer to membership without pinning down the timetable or conditions for ioining the club. The agreement bridges the

gap between Germany's desire to speed the enlargement process and the reluctance of others, notably France, to effer commitments to individual countries. All applicants will be treated equally, but it is left open whether all negotiations will start at the same time.

The final declaration papered over differences between Chancellor Helmut Kohl - keen to see Germany's eastern neighbours offered preferential treatment - and

Czech Republic could be judged as those closest to meeting the requirements. Instead the heads of state said they hoped to start negotiations with some countries

Cyprus and Malta. The European Commission "The important thing is that will prepare opinions on the countries which have applied the leaders of the 11 nations

demning French nuclear tests.

Other countries appear pris-

oners of national domestic

pressures. The Dutch spent

much of the summit complain-

ing about the size of their bud-

and the Swedes spoke up on

enlargement, but otherwise

they had one eye on their

The political vacuum accen-

tuates the German vision on

the future shape of Europe,

because no other country has

such a clear view. "There is

a truly European outlook,"

savs a veteran EU diplomat

"and that is Jean-Luc Dehaene

contributions. The Danes

so far, so that they can be forwarded to heads of government "as soon as possible" after the conclusion of the IGC. In the light of these reports, and the outcome of the IGC, the council will "at earliest opportunity take the necessary decisions for launching accession negotia

The Commission has also been asked to produce a report on the impact of enlargement on EU policies and an analysis on the future "financial frame work" for the post-1999 EU. lie in reforming the two poll-

The biggest challenge will cies which account for 80 per cent of the EU's budget -

with the commission that neither CAP nor the regime for channelling aid to the por regions should be disman

All endorsed the principle of CAP reform, bearing in mind commission calculations that extending it unchanged would cost the EU a further Ecul2bn (\$16bn) a year.

On aid to poorer regions the Commission has already warned that enlargement without political guarquine for the "cohesion" countries Greece, Ireland, Spain and Portugal – will be socially unacceptable and politically

But extending the policy without reform would be prohibitively expensive. Britain estimates that, with

out reforms, the extra cost of 10 new members could be

Opinion split on the Euro

FT writers discover what's in a name for the citizens of Europe

hen Europe's single currency is born EU countries will have deficits and public debt - but pronunciation will remain a

In Italian, the word Euro chosen last week at the Madrid summit as the name for the single currency - is pro-nounced "eh-uu-ro", possibly to be rendered as Euri in the plural. Euro is pronounced "Oiro" in German. For French analysts, debate is already starting on whether the name requires an acute accent on the initial "e" and an "s" in the plural. However, many across Europe appear to view the choice of name as at best an

irrelevance. "The mountain

really has laboured to bring forth a mouse...It's a grey and banal name," lamented Il Sole 24 Ore, Italy's business

daily. Ms Sophie Whitfield, an art photographer in London said Euro sounds silly - it's a prefix, not a proper word."
In Italy and France, as well as the UK and Germany, there are many who regret the pass-ing of their historic national currencies. Mr Sergio Ajrola deputy manager of a Milan supermarket said: "They could have chosen from plenty of his in several European countries the ducat, for example, Even sterling was not restricted to England in the past."
But the choice of a name for

the single currency has European." Those in favour of brought the imminence of a single currency were equally monetary union into focus -particularly in Germany where commentators emphasised the risks of a single currency.

mattered least in the UK.

where divisions between the

UK's Eurosceptics and pro-Europeans are too entrenched to be swayed by nomenclature.

Julian Brewer, a sales assis-

agnostic. 'I am always for a united Europe," said Mr Kasim Katib, manager of a groceries store. "The name does not "Euro: A nice name is not matter." In the Lord Eigin pul

In France, the term 'Euro' has not been associated with great financial success of late, as with Eurotunnel and Euro Disney

Water Rand, Wilhelm J. Brisnel, Colin A. Kennard as Geschäftsfäher and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman, Sareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd. London and F.T. (Germany Advertising) Ltd. London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SEI 9HL GERMANY: rather keep the D-Mark." In France the term "Euro" has not been associated with great financial success of late.

GERMANY:
Responsible for Advertising Colin A. Kennard. Printer: DVM Druck-Vertrieb and Marketing GmbH, Admiral-Kosendahl-Strase Ja. 67263 Nen-Isemburg (owned by Harryet International). ISSN 0174 7361. Responsible Editor. Ruchard Lambert, eto The Financial Times Limited, Number One. Southwark Bridge, Loudon SE1 9fil.
FRANCE:

FRANCE:
Publishing Director: D. Good, 168 Ruz de
Rivoli, F-75044 Paris Cedex 01. Telephone
(01) 4297 0621, Fax (01) 4297 0629.
Printer: S.A. Nord Estain, 15721 Rue de
Care, F-99100 Roubsin; Cedex 1. Editor
Richard Lembert. ISSN 1148-2753. Commission Parisaire No 67808D.
SWEDDNE.

Onto Special Times Limited 1995.

O The Financial Times Limited 1995.

Co The Financial Times Limited, Number One Southwark Bridge, London SEI 9811.

enough," said the liberal Ger- in London's Maida Vale eight man newspaper Suddeutsche Zeitung, listing the big chalout of nine regulars were against adopting a single cur-rency. We English don't like lenges of monetary union --particularly the need to create jobs and win public confidence. change, we are all conserva-tive," said one. Many feared it

There was little grief for the would lead to inflation and loss of the Ecu, even in France, Pro-Europeans said British where it was a unit of currency used in the middle ages - and pragmatism would prevail over President Jacques Chirac's pre-ferred choice. It was left to a the other national trait, complaining - and pointed to ear-lier currency changes such as former president, Mr Valery Giscard d'Estaing, to see the the switch to decimal currency end of the Ecu as a setback for from pounds, shillings and France. In Germany, a housewife buying her Christmas tree near Frankfurt, said: "Euro is "When they changed from pound notes to pound coins people mouned but they were better than Ecu, but we'd

ready to adapt," said Ms Tracey Crompton, a barmaid. One small business owner, Mr Melvin Grant, said: "This Eurotunnel, the operator of the nation tends to accept whatcross Channel rail link, has ever happens. There are no suffered losses and plunging share prices, while Euro Disriots like to France." ney, the struggling theme park was last year re-named Disneymany either, but opinion does land Paris as part of a relaunch. The choice of name

There are no riots in Gerappear to be swinging against a swift monetary union. The Frankfurter Allgemeine Zeitung accepted the name, but said bluntly: "Everything points to a postponement of the joint currency," rather than an EU divided between "I don't think we should use it ins and outs.

whatever they call it," said Mr Krishna Guha in London Andrew Jack in Paris, Andrew

Greek premier fights infection

Mr. Andreas Papandreon, Greece's prime minister, who has been in intensive care for the past four weeks with hing and khiney problems, was yesterday fighting a new infection, according to doctors at the Onasseion Cardiac Hospital.

A medical bulletin said he was being treated with antibiotics but the secondary infection had not been identified. It was the

second infection to strike him in the past five days. The 76-year-old prime minister has shown no sign of wanting to resign. However, doctors have said that if he recovers, he will have to retire from politics.

Senior members of the governing Panhellenic Socialist Movement have made clear that Mr Papandreon will be asked to stand down early in January so the 170 Socialist deputies can elect a new prime minister. With most cabinet members reluctant to request Mr

Papandreon's resignation, the job is likely to fall to Mr George Papandreou, the education minister and the prime minister's

More Irish Steel talks today irish and British officials will meet again in London today to

discuss the dispute over Irish Steel, after having failed to agree at weekend negotiations on Dublin's plans to provide B27m (£28m) to save 400 jobs at the loss-making plant. Senior officials of the British trade and industry department concluded two days of talks in Dublin to seek a compromise in

the wake of a meeting between Mr John Major, the UK prime minister, and his Irish counterpart Mr John Bruton during the European Union summit in Madrid last week.

London claims that support for Irish Steel threatens jobs at British Steel. A special meeting of the EU industry is scheduled for December 20 to resolve the issue.

A cross-party delegation of Irish MPs travels to London today to urge the British to lift the veto, which the UK is insisting on under EU rules on state aid, to block Dublin's sale of Irish Steel to Ispat International, an Indian steel group. Irish Steel produces around 243,000 tonnes of finished steel. Under compromise proposals put by the Irish side, Dublin would agree to redirect up to 90 per cent of future output to John Murray Brown, Dublin

Fog delays Bosnia mission The dispatch of US aircraft to secure Tuzia airport was

delayed by yesterday freezing fog over northeastern Bosnia, but other Nato soldiets crossed into former Yugoslavia by Nato officials said once the advance aircraft landed in Tuzia to check the radar equipment, winter weather would have less impact on the deployment of the troops.

Operation Joint Endeavour, comprising Nato forces and mits from 16 non-alliance countries in the biggest movement of troops across Europe since the second world war, has been slowed by heavy snow throughout Bosnia.

As the deployment begins, delegates from 31 countries at a conference outside Bonn will today consider guidelines for the disarmament of Bosnia's three warring sides. In Dayton, Ohio, last month the presidents of Bosnia. Serbia and Croatia agreed to a formula for reducing their weapons arsenals.

in an effort to bolster his grip on power, Mr Radovan Karadzic, the Bosnian Serb leader, who is under pressure to stand down from Belgrade, tried to form a new cabinet. His Bosnian Serb assembly, which had been due to consider the peace plan yesterday, neither approved nor rejected the comprehensive agreement which was signed last week in

Bus bomb in Turkey

and exploded under a bus yesterday in a southern Turkish city where Mr Mesut Yilmaz; Motherland party leader, was tine to speak just hours later, party officials said. There were no casualties in the latest political violence before general elections next Sunday, party provincial

ecretary Sevinc Bevazit said. The bomb damaged the party's campaign bus in the early noors of the morning in the Mediterranean coastal city of Antalya, where Mr Yilmaz was set to address a rally later in

Unknown assailants in Istanbul threw petrol bombs at two offices of the Islamist Welfare party and a Democratic Left party office at the weekend. Nobody was injured.

Leftist and Kurdish groups have carried out similar attacks

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third budget vote today

Italy's government should today propose a third and final vote of confidence on the 1996 budget to a fractious parlia-

The technocratic administration, headed by Mr Lamberto Dini, won two votes of confidence on the budget on Friday, after the right-wing alliance headed by Mr Silvio Berlusconi held back from unseating the

In an attempt to deter the right from toppling the government. Mr Dini warned on Sat-urday that if the parties wanted to use the vote for political ends, he might decide to pursue normal parliamentary procedure for the rest of the budget.
That would mean opening a debate on 2,200 budget amendments. Debate would probably

delay the long-awaited discussion between the parties about whether to prolong the life of the Dini government or press ahead with early polls as Mr Berlusconi and his allies want. The right has said it will vote against the government today, and has publicly castigated those deputies who did not appear to vote on Friday.

Most observers believe, however, that they were told not to vote last week so that the right-wing alliance could maintain its opposition to the government without having to jeopardise the budget.

The government was supported by the former communists of the PDS, the main left wing party, and the small

a confidence vote. It was only a ment out," Mr Dini said after the Madrid summit of Euro. pean Union leaders.

If the budget was approved he said he would hand in his resignation on December 28. The Italian president, Mr Oscar Luigi Scalfaro, is then likely to ask the chamber of deputies to decide whether Mr Dini should stay on during the Italian presidency of the EU, or give way to allow early elections.

Today's vote, if it goes ahead, will be on fiscal measures, probably the most sensi-tive part of the budget. They include amendments to tax breaks for companies

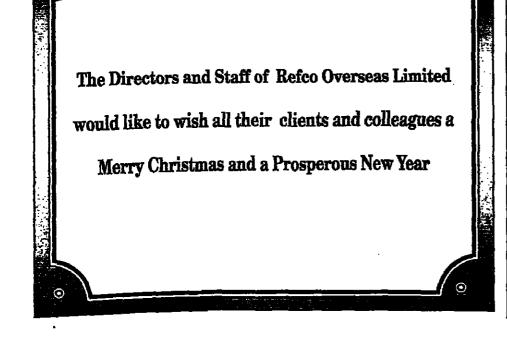
which reinvest profits, a popular measure introduced last year by Mr Berlusconi's government, and incentives for companies which want to list their shares on the stock exchange.

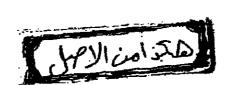
Debate over the latter mea-

sure has been muddled by the left's concerns that it could favour Mediaset, the television business controlled by Mr Berlusconi, which intends to seek a market listing next year.

As the political debate intensifies, Italy's business leaders

have repeatedly called on poli-ticians not to sacrifice the budget to political ambition. In an editorial this weekend, Il Sole 24 Ore, the business daily. called for approval of the budget, which it said would conclude the work of the Dini government. "Now it's up to the others. .. to come out into the open and finally say what they





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Sweden tries Juppé pays high price to save reforms to resolve nuclear issue

By Hugh Carnegy and Christopher Brown-Humes in Stockholm

Sweden is today set to take the first, tentative, step towards solving the problems posed by one of the most expensive environmental political promises ever made in Europe - the 15year-old commitment to decommission the country's 12

nuclear power plants by 2010. Nuclear power provides half of Sweden's electricity needs. This cheap energy is a vital factor in the international competitiveness of the country's

olg, energy-hungry industries such as pulp and paper.

The cost to the government of replacing nuclear power threatens to place a heavy new burden on public finances just as the huge state debt is being brought under control. It could skew Sweden's plans to qualify for European monetary union. An all-party parliamentary

Debmmission will today amounce its findings on the issue, providing a starting phint for what is expected to be a fierce political debate.

A majority of the commis-sion, led by members of the ruling Social Democratic party, is expected to recommend that fulfilling the promise of a complete shutdown by 2010 is unrealistic - a view that economists, industrialists and an increasing number of government ministers have long

However, a strong minority within the commission, made up of the Knvironment party and the Centre party, remains committed to the original deadline set by parliament after a referendum in 1980. Mr Ingvar Carlsson, the

Social Democratic prime minister, and Mr Goran Persson, the finance minister, who is set to sticceed Mr Carlsson in March. have also both stuck to the public stance that the 1980 promises should not be broken. Even if a consensus can

eventually be found that lifts

ment over how quickly to unwind the industry and which alternative energy sources to invest in will be

Natural gas - the most obvi-ous alternative - is opposed because it would increase Sweden's carbon dioxide emissions, hydro power is opposed because of objections to damming more rivers; other sources such as wind power are untested, expensive and incapable of filling the energy gap created by the loss of

puclear power. A key factor behind the debate is that the existing nuclear plants will have a much longer life than originally envisaged. In 1980, it was thought the last reactor, which opened in 1985, would have reached the end of its recimical lifespan by then. Now the plants are expected to have a 40-year life, not 25, implying 2012 as the year the first reac-

tor should be closed: tor should be closed:

Estimates on the cost of replacing nuclear power differ widely because of varying esti-mates of demand and alternative sources. Some have put the figure as high as SKr350im (\$52.6bn), although the latest estimate published at the weekend puts it as low as

SKr61bn. However even the low estimates mean a big weight for the government. By compari-son, the unprecedented austerity programme of spending cuts and tax increases intro-duced over the past year by the government will take SKr115bn or 7.5 per cent of GDP - out of the budget deficit over three years. Finding room to spend a similar sum would be hard without renewed expansion of the state debt - already at 85

per cent of GDP.

This has led industry to question whether decommissigning makes sense even on environmental grounds, particnlarly when so little is being spent on making safe much more unstable nuclear plants

oday will probably see most French swammer making a ragged return the way for the first government decrees to repay past social security debt and to tackle hospital overspending. It therefore seems that Mr Alain Juppe, the prime mini-ter has measured most of his welfare reforms, but at a high cost to the French economy, to

the European cause and to France's three-week conval-sion over reform has ended in a split werdict. Rail workers have more for the have went, for themselves and, for other public sector work-ers, the right to keep pension arrangements more generous than in the private sector, as well as complete renegotiation of the plan to streamline the SNCF rail network, and a new president of the SNCF to nego-

liste with.

But they have not, or at least not yet, knocked out other elements of the Juppe These include a new tax to

repay welfare debt, raising hospital patients' fees and tying hospital spending to the inflation rate, a special charge

and tasting them a year later.

Today will probably see A senior Juppé side claims most French strikers that these are the measures making a ragged return designed to reduce the to work and the conservative of the work for the first paring the way for the way f year and put it in FFr11bn sur-plus in 1997, and that the now-abendoned pension changes never figured in this deficit-reduction timetable. Why therefore did the government attempt pension reform in the first place, or make such an effort to crack a social security deficit that is only one fifth of this year's FF7322bn budget deficit? The same Juppé aids points out that while "budget

> run a deficit on social security
> - a form of insurance - is aberrant". The Juppé team remains unrepentant about the economics of its controversial strategy.
> "We cannot be as confident
> of reducing the social security deficit as we are about the budget deficit, until we have the same centralised control over social security as we do ever the budget," says the aide. This is the rationale for

deficits are to a limited degree

economically acceptable, to

place unions and employers from control of welfare spending, which is to pass to itself and parliament.



Strikers spelling out the name of their foe - the prime minister

calculation of the strength of union resistance to his welfare logic has proved very costly. Some economists reckon the strikes will have knocked 0.2-0.3 per cent off national growth in a final quarter that looked likely to be flat even before the crisis hit.

To the extent that the slow-

government to meet France's not be ruled out.
Maastricht commitments by slicing at least 10 per cent off people turned or the next two years. Mr Juppé's credibility has

been shaken by his concessions to the rail workers. Doctors and nurses do not have the same industrial muscle, down depresses tax revenue, it but as the welfare reforms pro-will maker it harder for the ceed further concessions can-

Hundreds of thousands of people turned out on French

protest against Mr Juppé's polbig in relative terms in Bordeaux, of which Mr Juppé is mayor, as anywhere else. While Mr Juppé has been able

within the opposition Socialist party, which knows some welfare reforms are essential but would prefer someone else to carry them out, he has been miped at from within his own Gaullist RPR party, of which

he is president. Asked last week whether Mr Juppé should resign, Mr Michel Péricard, the RPR leader in the National Assem bly, merely said a change of premier was "inopportune in the middle of a crisis".

President Jacques Chirac has been less ambiguous. He has offered expressions of confidence in his long-time lieutenant, saying in a manner reminiscent of Lady Thatcher in the UK that "there is no alternative". But the presi-dent, elected in May, has repeated that he can take the long view because he has a seven-year term of office, a statement which necessarily becomes less true as time goes by. Mr Chirac is clearly watching and waiting to see how far Mr Juppé can dig himself out

Before the welfare crisis, it was a fairly safe bet that Mr Juppé would at least survive to lead the centre-right into the 1998 elections, thereafter dropping out or being contest the 2002 presidential poll. It is now a riskier wager.

French unions' protest begins to fragment

Demonstrations by French trade unions in Paris and around the country on Saturday said much about the way in which opposition to the social ecurity reforms of Mr Alain Juppé, the prime minister, is beginning to

fragment.
The number of marchers was below the levels of several previous rallies, and swelled by extremist groups including several groups of Socialist Worker party activists from the UK and other organisations including ecologists and the gay lobby. Even as Mr Marc Blondel, leader of

Force Ouvrière, and Mr Louis Viannet head of the communist-leaving Confédération Générale de Travail, called for further demonstrations this week, irains, buses and metro carriages began to rumble across the capital again as many of their rank-andthe deadline, finding agree- in the former Soviet Union. file members returned to work.

Part of the problem is that the two union leaders have mobilised widespread support for industrial action which judging by opinion polls is shared even by frustrated commuters and others not on strike - only by capitalising on an increasingly broad

and unfocused range of demands. Little by little, a number of these grievances have fallen away. The point was well illustrated by one banner on Saturday. Of its four demands, two had been met and the phrases crossed out the departure of the head of SNCF, the national railway company, and the withdrawal of its

restructuring plan. By making piecemeal concessions, the government may yet be able to hold off on the more substantial remaining two demands: the departure of Mr Juppé himself, and the wholescale withdrawal of his social The unions are now partly trapped

by their own delegated forms of democracy. Despite the rallying calls from the top, local assemblies have been voting since the end of last week for returns to work, boosted by secret ballots and motivated by government climbdowns and the economic hardships of striking.

Without the energetic militants of

strike, the effects of any residual industrial action will be much reduced. That is why both Mr Blondel and Mr Viannet are keen to demand that Mr Juppé's promised "social summit" scheduled for Thursday is held ear-

the railways and public transport on

Yet the meeting looks increasingly likely to turn into a charade. The head of the employers' federation says he may not even take part, while the unions' demands - including salary rises and shorter working weeks - are

lier, before the momentum disap-

becoming so broad that they are unlikely to be seriously discusse In some ways, Mr Blondel has boosted credibility with more radical union members by mobilising efforts which forced the government to back down on a number of measures, including removing some of the privilexed retirement conditions for "spe-

cial regimes" in the public sector. Yet he has so far done nothing to win concessions in the area which will hurt Force Ouvrière most - Mr Juppé's plan to strip away the union's control of the Caisse Nationale d'Assurance Maladie, the healthcare reimbursement agency with an annual

budget of more than FFr600bn (\$123bn). He has also built support for the strikes by moving towards a "rapprochement" with the CGT, including a highly publicised handshake with Mr Viannet. That does not go down

well with some members of Force

the CGT in 1947 because it wanted to remain independent of party politics.

Mr Blondel's two previous leader ship election victories are the result of curious political alliances within the union between Trotskyltes and members in the private sector more closely linked to the ruling Gaullist

RPR party. His moves towards the CGT could destabilise both these areas of sup-port, just ahead of the union's congress and leadership contest scheduled for February. At least one candidate, Mr Jacques Maire, has already said he will stand against Mr Blondel.

More moderate union leaders will also not necessarily escape unscathed from the effects of the strikes. Ms Nicole Notat, head of the CFDT union, stood out against industrial action, sympathising with Mr Juppe's reforms and concessions.



Shell to probe

Shell Nigeria has appointed consultants to run an independent

environmental survey into the problems of the Niger delta and plans to replace all ageing equipment by 1997. The move

follows increasing pressure on the Anglo-Dutch Shell group

over its involvement in Nigeria and its relationship with the military regime which recently executed Ogoni activist Ken

Saro-Wiwa and eight other Ogonis.

The company acknowledges that it has sought help from the authorities regarding specific threats to its installations but

has denied paying the military.

The Ogoni ethnic group has waged a long battle against drilling in the area and has demanded raparations for

pollution. Shell conceded that it had caused environmental

damage in the delta. "Where the problems are things which

we have clearly done, such as oil spills, we have to go and do

something about it. We want to make good the problem

areas," said Mr Brian Anderson, managing director of Shell

Shell produces about half of the 2m barrels-a-day output in

Nigeria, Africa's largest oil producer, and most of its 90 fields

Shell shut down its operations in Ogoniland in 1993 amid threats against staff and sabotage of equipment and says that

it will not return until there is reconciliation between all

Haiti presidential voting begins

Haitians began voting yesterday in a presidential election regarded as a key test for the US-led military effort to restore democracy to the Caribbean nation. The first-round balloting is to pick a successor to President Jean-Bertrand Aristide, a

popular former Roman Catholic priest who won Haiti's first

free and fair presidential election in 1990. Mr Aristide was

forced from office by a military coup in September 1991 and restored under a US-led international military occupation in

Constitutionally barred from seeking a second consecutive term, Mr Aristide is expected to be succeeded by former prime

minister Rene Preval, the candidate of Mr Aristide's Lavalas political movement. Mr Preval is running on a platform of judicial reform and government decentralisation.

Security in the election is provided by 4,000 Haitian police.

and 5,800 UN troops. Official results are not expected to be

virus which can lead to Aids, at the end of 1994 and 6m adults

immune-deficiency disease first came to light at the beginning of the 1980s, according to revised estimates by the World

The WHO says sub-Saharan Africa accounts for 11.2m or

sufferers. Under-reporting is rife in Africa, which has notified

Zambia and Zimhabwe. After Africa, south and south-east Asia

have the greatest numbers of HIV infections (3m), with the highest prevalence rates estimated to be in Burma, Thailand

and Cambodia (over 150 per 10,000). Among industrialised nations the highest infection rate is found in Spain (58 per

The number of murders reported in the US fell 12 per cent in the first half of 1995, the largest decrease in 35 years, the Federal Bureau of Investigation said yesterday. Officials said

it was the the most dramatic drop in the murder rate since 1960, the earliest year for which the agency has comparable

The FBI said robberies were down 10 per cent in the first

two-thirds of HIV infections, and three-quarters of all Aids

WHO of only 440.026 Alds cases, less than a tenth of the continent's estimated 4.5m victims. In an analysis of HIV prevalence by country, the WHO says 15 countries – all in sub-Saharan Africa – have an infection

Worst-affected countries are Botswana, Malawi, Uganda

HIV affects 17m wordwide Almost 17m adults worldwide were infected with HIV, the

Health Organisation. This compares with just 1.3m officially-reported Aids cases.

rate of over 500 per 10,000 sexually active adults.

Murder cases fall in US

and children have contracted Aids since the

Paul Adoms, Lagos

Reuter, Part-au-Prince

are on land or in swamps near to communities which resent

the lack of local benefits from the industry.

Niger delta

INTERNATIONAL NEWS DIGEST

Hopes boosted for Syria peace talks breakthrough

Christopher brokers an end to six-month stalemate and announces a timetable for fresh talks and diplomacy

By Julian Ozanne in Jerusalem

Mr Warren Christopher, US secretary of state, returned to Washington yesterday having brokered a resumption of peace talks between Israel and Syria during his Middle East shuttle.

The return of Israel and Syria to the peace table after six months of stalemate comes amid strong signs that both sides believe there are reasons for optimism about a breakthrough under US auspices.

"The new or intensive negotiations provide a real opportunity for prog-ress," Mr Christopher said in Cairo

After talks over the weekend with Mr Shimon Peres, Israeli prime minister, and Syrian President Hafez al-Assad. Mr Christopher announced a resumption of negotiations and a timetable for further talks and diplomacy throughout January.

The two sides will meet first next Wednesday for two days of round-the-clock talks outside Washington. A second three-day round will take place in early January, followed by a Middle East visit by Mr Christo-

Officials said the breakthrough came as Israel agreed to hold talks with Syria unconditionally and to discuss any issue. The talks focus on peace in return for an Israeli withdrawal from the occupied Golan Heights, captured from Syria in the is one of Mr Assad's most important 1967 Arab-Israeli war. Mr Christopher goals. is believed to have delivered a concrete pledge from Mr Peres that Israel is prepared to make a full withdrawal from the entire Golan Heights as the price to be paid for full peace with

However, Israel's opposition assailed the resumption of peace talks with Syria, and yesterday said it would do all it could to stop Mr Peres from ceding the Golan Heights. "We will certainly do all we can to

prevent the government from carrying out its intention to hand over the Golan," Mr Benjamin Netanyahu, leader of Likud, the main hardline opposition party, told Israel Radio.

Mr Peres has also proposed a series of simultaneous negotiations on dif-ferent levels - political, bureaucratic and military - to discuss all aspects of the peace process. This differs from Israel's previous approach that the two sides hammer out complex and controversial security arrangements Officials said Mr Assad was also

encouraged back to negotiations with the promise that the US would play a much greater role than in the past, becoming an active broker rather than just carrying messages. Improving relations with Washington, which has Syria on an international blacklist of countries sponsoring terrorism.

But the most important change in the talks is Israel's position on full withdrawal from the Golan, Mr Assad has long maintained that the key to successful negotiations is an Israeli recognition of Syrian sovereignty over

Mr Peres has publicly denied he has made any formal pledge through Mr Christopher, but over the weekend he said: "I have no doubt that Israel should pay the full price in return for full peace. I think that without it there will never be peace. It is possible that a one-time opportunity has arisen to put an end to the issue, to the state of belligerency in the Middle

Several Israeli newspapers reported yesterday that if the Israeli-Syrian talks make progress Mr Peres is planning to ask parliament in January to recognise Syrian sovereignty over the Golan Heights. Mr Netanyahu said yesterday he would revive a failed effort to require more than a simple majority for passage of any deal hand-ing back the Golan in Israel's parlia-

A poll for israel's largest newspaper Yedioth Ahronoth last week showed 55 per cent opposed to a full withdrawal and 42 per cent for it. Of those surveyed, 48 per cent doubted Mr



An Israeli border guard keeps watch over Bethlehem's Manger Square

Mr Christopher said he had been appressed with the determination of both sides to move into a new intensive phase of negotiations which, he said, Mr Assad had promised would be "building, positive and creative". However, Syria continues to resist Israeli demands the talks be upgraded Assad was sincere and 46 per cent from ambassadorial to ministerial

level. Nevertheless, Israel will next week send Mr Uri Savir, foreign ministry director general, to head its

Mr Savir was largely responsible for the breakthrough in secret talks with Palestinians in Oslo in 1993 which paved the way for peace accords with the Palestine Liberation Organisation

Israel's new foreign minister says Syria has shown a change of heart

Two sides aim for Assad-Peres summit

By Julian Ozanne in Jerusalem

Israeli-Syrian peace talks next week will focus on trying to arrange a summit between Mr Shimon Peres, Israeli prime minister, and Syrian President Hafez al-Assad. This would be a "turning point" in Israeli-Syrian peace talks, Israel's new foreign minister said yester-

In his first foreign interview since becoming foreign minister last month, Mr Ehud Barak said Mr Assad had shown a fundamental positive change of attitude towards negotiations. For the first time in three years of stalled negotiations Mr Assad had promised to be "flexible and creative" and he had also promised to give his representatives to the negotia-tions a broad mandate, he said. Mr Barak said this laid a basis for progress, and next week's talks could pave the way for a summit between Mr Assad and Mr Peres. The breakthrough, Mr Barak said, came after Mr Peres presented

a new negotiating package to

Mr Assad through Mr Christo-

pher and agreed to enter into talks "without pre-conditions".

"Assad gave a positive response to these proposals. He sees there is something in our proposals. There are still wide gaps but he is ready to discuss and that is an important change," Mr Barak said.

Mr Barak, who met Syria's chief of staff earlier this year, denied that the last talks broke down over Syria's refusal to accept Israeli demands for an early warning station on the Golan after a peace deal. He said an early warning station was merely one element in a wide variety of security

demands were contingent on the extent of real peace. There are many ways to achieve our security goals and the exact cocktail should be

negotiated between the two sides," he said. "For some reason the Syrians were unready to deal with the Gestalt of security. Now they are ready.' Israel, he said, wanted a real peace that "pacifies the inner ring of countries" around the Jewish state and ruled out the

future prospect of war. Furthermore, secure peace with Syria would allow Israel to be more flexible in talks with Palnent status for Palestine. Mr Barak said the time was

estinians next year on a perma-

not yet ripe for Israel to make a public commitment to Syrian sovereignty over the Golan Heights and a full Israeli withdrawal, Syria's central demands. Israel continued publicly to insist the depth of an Israeli troop withdrawal would be commensurate with the depth of peace achieved. But he said Mr Assad understood that Mr Peres could

make "visionary steps if the challenge was met from the

Clinton and Dole seek to restart budget talks

President Bill Clinton and parks. Senator Bob Dole, the Republican majority leader, both urged yesterday a resumption of "good faith" negotiations over the budget - but without hinting that an agreement before Christmas was in

Mr Dole said if the president sat down with him and Mr Newt Gingrich, the Speaker, the dispute, which has resulted in a second partial shutdown of the federal government over the weekend, could be settled 'in a day, perhaps less".

'I'm not a shutdown advocate," the majority leader said, but conceded that Republicans in the House took a more hardline position. Prior to a meeting with Mr Gingrich, he said that any new "continuing resolution" temporarily funding government operations had to originate in the House.

Mr Clinton insisted his administration had made "far more movement" in negotiations than the Republicans controlling Congress. He hoped many of the 260,000 federal employees laid off on Friday midnight with the expiration of the previous continuing resolution would be back at work

The impact of the lay-offs was mostly felt over the week-end by angry tourists through

By Jurek Martin in Washington the closure of federal muse- their proposed \$245bn (£155bn)

The Washington local government was spared closure today, after Republicans agreed to drop a controversial school voucher programme from the DC appropriations bill, rendering it palatable to the president.

However, the weekend had mostly been spent with each side blaming the other for the collapse of negotiations on Fri-

Powell may not have slammed door, says Dole

Mr Clinton used his regular Saturday radio broadcast to accuse the Republicans of deliberately sending government workers home "in an effort to force through their unacceptable cuts in healthcare, education and the envi-

Mr Dole responded sharply to that, saying the president was "spewing garbage." But Mr Mike McCurry, the White House press secretary, said on TV yesterday that the Republicans had precipitated the Friday deadlock by refusing to cut more than \$4bn-\$5bn out of

Mr Leon Panetta, leading the budget negotiations as White House chief of staff, said yesterday the debate "is not just a numbers game, it's about policies that affect people". The Republicans, he charged, refused to "walk through" any discussion of the practical consequences of changes to federal

Mr Dole, in a fractionally more conciliatory mood yesterday, accepted that the size of the tax cut should be "on the table" in any resumed negotiations. But he also charged Mr Clinton with continuing to play "a nolitical game" over the Medicare and Medicaid federal health insurance pro-

"It's all politics for the president." he said.

He said the president could instantly mitigate the effect of the pre-Christmas shutdown by signing three annual appropriations bills now on his desk. Mr Dole also thought that retired General Colin Powell had not definitely "slammed the door" on the idea of running as Republican vice presidential candidate next year. The majority leader, the clear favourite for the party's nomination, said Gen Powell would "answer the call" to more public service if it were correctly

Entertainment software on track for growth

By Alice Rawsthom

Entertainment software is one of the few industries that emerged almost unscathed from recession in the early 1990s and is now returning to growth as economic conditions improve, according to a new study on the sector.

A report by Euromonitor, the research consultancy, shows that sales of recorded music, video games and video cassettes showed real growth in almost all the main entertainment software markets last year, except Spain and Italy. Volume sales rose in all

seven countries, including Spain and Italy, but both those markets experienced a 1.9 per cent decline in value sales in

Other markets were more buoyant, according to Euro-monitor. The US, which is the largest single entertainment software market, with sales of \$23.3bn (£14.7bn) last year; reported volume growth of 9.9 per cent and real value growth of 8 per cent.

The rate of increase was more modest in Japan, the second largest market, at \$16.8bn, with volume growth of 1.2 per cent and real value growth of 0.7 per cent. The corresponding £1,595.

ing with crime and fraud, but

as new markets emerge, busi-

nesses are now faced with

bility and inadequate legal

The report says that elec-

tions and government changes

infrastructure."

of 1996.

figures for the \$5.1bn German market were 2.4 per cent and 2.8 per cent; with 5.7 per cent and 3.8 per cent respectively for the \$4.3bn UK market.

One of the chief catalysts for the market's growth has been the continuing increase in penetration of entertainment hardware, such as CD players and video cassette recorders. The popularity of compact

disc has already relegated vinyl records to a small, spe-cialist market of collectors. It has also triggered a decline in sales of pre-recorded audio cassettes. However other digital formats, such as Sony's Mini-Disc and digital compact cassette developed by Matsushita and Philips, have failed to gain a significant market share.

Sales of pre-recorded video cassettes are increasing, according to Euromonitor, but average unit prices are falling sharply. The electronics and entertainment industries hope the new digital video disc systems will have the same catalytic effect on this market. when they appear late next year as CDs did on audio soft-

Entertainment Software by Euromonitor, 60-61 Britton Street, London EC1M 5NA.

Yemen yesterday accused Eritrea of attacking its troops

vital waterway. Yemen and Eritrea have both deployed warships and aircraft. Yemeni military sources said Eritrean forces were firing at Yemeni positions on the Red Sea island of

The sources said Yemen suf-fered dead and wounded in the clash which erupted on Friday. News of the clashes added to existing tension in Sanaa following reports of further Saudi border incursions and the acceptance by some 300 Yemenis of an offer of Saudi citizenship, according to offi-

The offer of Sandi citizen-ship was made by officials

Yemeni official said. Reports of the Saudi advances came as talks were due to start in Saudi Arabia on Saturday between Yemen's parliamentary leader, Sheikh Abdullah Al-Ahmar, and the Saudi defence minister, Prince Sultan Bin Abdul-Aziz

These had been arranged in an effort to defuse tensions following military clashes 10 days ago in the Al-Kharakhir area, 100km west of the Oman-Saudi-Yemen border. Yemeni officials said three Saudi infantry and armoured brigades were involved, while denying any build-up of

Yemen accuses Eritrea of attack

on a disputed Red Sea island, threatening shipping in the

Greater Hanish from warships.

cial sources in Sanaa.

anying Saudi militaty forces which penetrated more than 70km south of the so-called Riyadh line, an undemarcated Saudi-Yemeni border agreed by Saudi Arabia and British colonial authorities in 1935. "Some Saudi units have reached as far south as Thamut 100km into Yemen and well into the eastern part of the Hadramawt valley." a

l'emeni forces. Saudi Arabia claims its territory extends much further to the south, in addition to which it has demanded a perpetual sovereign lease on a 48km-wide "corridor" alongside the Yemen-Oman border to facili-

The FBI said robberies were down to per earn in the institual of this year, the number of rapes decreased by 7 per cent and assaults fell 2 per cent. Attorney General Janet Reno said more community policing and greater co-operation between federal and local notice in fighting violent drug gangs were reducing the crime rate. However, Ms Reno expressed concern about the surge in youth violence since 1985, especially since the number of youths will increase sharply over the next 20 years.

Taiwan raises investment cap Taiwan will double the ceiling on investment in its stock market by foreign institutions to \$400m (£250m), the central bank said yesterday. Each foreign institutional investor is currently permitted to have total holdings of up to \$200m in the Taiwanese stock market.

The central bank will also enable foreign institutions to apply for permission to exceed the new limit, but did not say when the new measures will be implemented.

The stock market still remains tightly restricted for foreigners. Individuals are not permitted to buy shares, and the foreign share of a listed company cannot exceed 15 per cent. Officials said the government was studying a proposal to raise the ownership ceiling to 30 per cent. AP, Taipei

SA gas leak kills three

Poisonous gas from a blazing chemical plant killed three people and forced the evacuation of 2,500 from a small town 40 km from Cape Town. South African authorities said yesterday. The fire, which began in a field close to the town of Macassar late on Saturday, rapidly spread to the plant, where 15,000 tonnes of sulphur had been stored for a decade as part of the past apartheid government's strategic stockpiles. The plant is owned by African Explosives and Chemical Industries. Reuter, Cape Town

Vietnamese soccer riot flares

Thousands of soccer fans disappointed at a Vietnamese team loss tossed petrol bombs and stones at police in Ho Chi Minh City in a rare incident of civil unrest. At least 29 police were injured, six seriously, and 78 rights arrested during more than two hours of clashes Saturday night and early yesterday. police officials said:

A crowd began to gather in Ho Chi Minh City, formerly Saigon, on Saturday evening, apparently hoping for a Vietnamese victory in a regional final in Thailand. However, Thailand won 40, and the crowd's mood soured. AP, Honor

Caribbean premiers eye Geest

The prime ministers of three Caribbean islands arrived in London yesterday to try to raise \$150m (£97m) from British banks to purchase the banana business of Geest, which markets the islands' fruit in Europe. Mr Edison James of Dominica, Mr John Compton of St Lucia and Sir James Mitchell of St Vincent are confident they can raise the money,

an official of the Dominican government said yesterday. The three islands, and Grenada, make up the Windward Islands, which are the main sources of bananas imported by the UK. The four governments and Fysies, a banana marketer, are planning a joint bid for Geest's banana business. Noboa, an Ecuadorian company, is also bidding for the Geest

The four islands fear that a sale to Noboa would damage their banana market in Europe because of Latin American objections to the islands' preferred access to the European Union's banana market. The islands' economies are heavily dependent on banana exports. Canute James Kingston

Attitudes to business risk in 1996*.



Emerging markets' instability and poor legal framework top concerns

Political worries hit investors

Political instability and tangled regulatory regimes in emerging markets have taken over from the threat of organised crime as the main concerns among leading UK and US international investor companies, according to a report published today by Control Risks Group, the London-based corporate security and intelli-

gence agency.
The Business Security Outlook, which has been published annually for the past six years, says: "The results of the BSO survey 1996 reflect a definite shift in business think-

"Executives are now becom-

the US face elections next year, and there are question marks over whether deaths among the elderly and ailing leadership in China will bring about ing more accustomed to deal- political change

India and Russia as well as

Mr David Battman, senior analyst at CRG, says that in the future businesses will not increasingly worrying factors only have to deal with government regulation but will have control, such as political instagroups and legalistic hurdles to deal with. He cites Nigeria as a case

where pressure groups will mean half the world's populahave a bearing on a company's tion, including key emerging ability to operate. The rise of global environmarkets such as Russia, India and China, could be under difmental activism in the past ferent leaderships by the end five years has left international business with nowhere to

hide," the report said. The survey among 100 businesses in the UK and the US found that China was regarded as the top region for doing business among UK businessmen (51 per cent of respon-

regarded as the best by US executives (67 per cent). The annual report grades most countries in the world as high medium, low or insignifi-

security risk. Control Risk Group operates 13 offices around the world and employs about 240 people.

cant in terms of political and

It has a turnover of £13m and specialises in four areas: security assessment, political risk sment, due diligence and crisis management for those who run into trouble in foreign

Business Security Outlook 1996, Control Risks Group CRG, 83 Victoria Street, London SW1H

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Roh \$370m Row over Japan mercury spill continues By Emilio Terezone in Tologo The mercury poisoning was desected in 1856 after a chemical complex plany. Chisco, drumped was in the spoling to victims of a mercury spill. By Emilio Terezone in Tologo The government's announcement follows agreement on a compromise plan between the last group representing unrecognised victims and the government. Although there are some 10,000 per per leading for redress, officials estimate that only 8,000 are likely to remany involved in a police and the government. The plan consists of compensation may cause further controversy. Although there are some 10,000 per per leading for redress, officials estimate that only 8,000 are likely to remany involved in a police and will also pay Y2.6m to Chisso and also the government. The plan consists of compensation was given the last group representation as the government. The plan consists of compensation may cause further controversy. The controversy. The government's announcement follows agreement on a compromise plan between the last group represents on the southern plan between the last group represents on the southern plan between the last group represents on the southern plan between the last group represents on the southern plan between the last group represents on the southern plan between the last group represents on the southern plan between the last group represents on the southern plan between the last group represents on the southern plan between the last group represents on the southern plan between the last group represents on the southern plan between the last group represents on the southern plan between the last group represents on the southern plan the southern Manufacture of the particular starts today

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Constitution in the Color

Former South Korean President Roh Tae-woo and eight business leaders today go on trial for the biggest corruption scandal in the country

Mr Roh, who will wear a common white prison smock during the proceedings, is accused of having accepted \$370m (£284m) in bribes from 35 industrial conglomerates in return for government con-tracts and other favours during his 1988-93 term.

He is the first Korean head of state to go on trial, following his imprisonment a month ago.

Mr Roh could receive a jail sentence of between 10 years and life if convicted, although most Koreans suspect he will eventually be pardoned.

Joining Mr Rob in the Seoul District Court will be the chairmen of the giant Samsung and Daewoo conglomerates and the heads of the smaller Dong-ah, Dongbu, Jinro, Daelim, Daeho

and Hanbo groups.

Prosecutors will outline their case today, with the trial held for one day every two weeks until it ends, probably in early

Mr Kim Woo-choong, the legendary founder of Daewoo, is alleged to have given Won15bn (£12.8m) to Mr Roh to win state construction contracts.

Mr Lee Kun-hee, the aristocratic Samsung chairman, is accused of having provided Won10bn to Mr Roh to secure a state licence to begin production of commercial vehicles. Mr Chung Tae-soo of Hanbo,

the only business leader to have been arrested, faces charges of bribing the former president to gain government land for a huge apartment complex in southern Seoul. He was released from prison last week on medical grounds. The Daewoo and Hanbo

helping launder Won97bn from guilty at a hearing in San Jose, Mr Roh's secret bank accounts and using the money as loans ing \$192,576 into US bank to finance their companies.



Rob Tae-woo confessing to slush fund on TV in October

allegedly paid bribes to Mr Roh for contracts or licences in Korea's heavily state regulated economy.

The executives, who face jail terms of up to five years or a Wonlbn fine, are expected to receive lenient treatment because of fears that their imprisonment could harm the

In addition, four aides of Mr Roh will be tried. They include Mr Lee Hyun-woo, the former head of presidential security and director of the national intelligence agency, who alleg-edly collected bribes for arr-anging meetings between Mr Roh and business leaders.

Others include Mr Kum Jin-ho, a ruling party MP, Mr Kim Chong-in, the chief presidential adviser on economic affairs; and Mr Lee Won-joe, a former senior government bank supervisor. All of them were allegedly involved in Mr Roh's money-gathering activi-

Prosecutors are also examining US records of a criminal case involving Mr Roh's daughter, So-young, and her huschairmen also face charges of band. The couple pleaded California, to illegally depositaccounts in March 1990.

government's victim compensation bay.

nata spill, the country's worst industrial pollution case, were unhappy over comments by Mr Tomiichi the government had made efforts to . avert the crisis at every stage."

most over the selection process for the who are contaminated fish from the

The central and local governments. Many of the victims of the Mina however, ignored the outcry from residents and failed to stop the pumping until 1968.

"I express a deep feeling of condo-Murayama, the prime minister, that lence toward those who have died in pain and my heart is full of apology, said Mr Muravama.

for people not officially recognised as victims because of their relatively mild symptoms.

More than 13,000 victims applied for compensation in the late 1960s, but the government's medical panel nominated only 3,000 seriously afflicted people as official victims.

Although yesterday's announcement officially closes the Minamata a Y30bn fund based on state subsidies

receive it. Under the scheme, Chisso will pay Y2.6m (£16,500) to each unrecogni patient, and will also make additional payments totalling Y5bn to five organisations representing the vic-

The central and Kumamoto prefec-

case, the selection of those eligible for and financing from bonds, will lend up to Y26hn to Chisso and also spend Yebn on projects to redevelop Mina-

Showa Denko, another chemical company involved in a poisoning case, will also pay Y2.6m to each unrecognised patient and will contribute Y440m to the victims' organisa-

Of the 2,000 people who have applied for recognition as victims, only 690 have been accepted. Shows Denko will also donate Y250m to Nigata Prefecture to redevelop the

Japanese will indicate preference for old-style consensus or the direct approach, writes William Dawkins

Voters to decide who leads New Frontier party

apanese politicians and voters in the coming days will indicate their preference for the old style gentle consensus or the direct

approach in modern government. The occasion is the start of the first leadership campaign for the New Frontier party since its formation by the merger of nine disperate opposi-tion groups just over a year ago. This will be the first time in a Japanese party election that the winner is chosen by public poll. The winner on December 28 will be the opposition's candidate for prime minister at a general election expected early next year. On the one side stands Mr Tsutomu Hata, a likeable former prime minis-

ter who represents the acceptable, if pedestrian, face of politics, the man of consensus. Against him is Mr Ichiro Ozawa, a tough king-maker bidding for the throne. Mr Ozawa's skill at outmanoeuvr-

ing opponents to get things done makes him unpopular with the Japanese public. Yet he is liked by foreign investors and trade partners. They think he might create more of a centre of power in Japan's diffuse government and are attracted by Mr Ozawa's exhortation that Japan should become a "normal" advanced economy. On policy, there is little between Mr

Ozawa and Mr Hata. They both advocate economic deregulation, a more internationally assertive Japan, more policy-making by politicians and less by bureaucrats, and a rise in sales tax to compensate for the shrinking income tax base of Japan's againg population.

The difference is approach. Mr Hata stressed yesterday that he preferred gradual change, at least on tax, and is seen by critics as lacking the intellectual drive to set his own agenda. Mr Ozawa sets the agenda, and his forte is in beating,



Ichiro Ozawa (left), tough king-maker, and Tsutomu Hata, likeable ex-premier

rather than appeasing, opponents.
Until they became rivals for control of the NFP over the past year, the Hata-Ozawa duo represented complementary, rather than competing, faces of the new Japan.

Mr Hata, who led a coalition govermnent put together by Mr Ozawa for a brief two months last year, once described himself as an actor in a nlay written by his colleague.

The first act in the drama opened in mid-1998, when Mr Hata, a member of the LDP's most powerful faction for 23 years, led a defection which was orchestrated by Mr Ozawa, causing the first and so far only



collapse of an LDP government. But they fell out soon after the LDP ousted Mr Hata's government to return to power last year. Their rivalry became open when Mr Ozawa, second in command of the NFP. arranged for the enthronement of another former prime minister, Mr Toshiki Kaifu, as the NFP's first

At its launch, the NFP under Mr Kaifu had high hopes of changing the face of Japanese politics, by creating the first effective alternative to the conservative Liberal Democratic party. The LDP has ruled Japan for much of the past four decades, bar-

The three parties in the ruling coalition of the prime minister, Mr Tomichi Murayama, may merge into a single new political entity that could dominate Japanese politics, a veteran politican said yesterday, Reu-

ter reports from Tokyo.
"It is possible that the Liberal Democratic party [LDP], the Socialist party and the Sakigake party will become one party under a name such as the Liberal Socialist party," said Mr Shizuka Kamel, a former LDP

transport minister. The long-ruling LDP is the dominant force in the three-party ruling coalition formed in June 1994 with Mr Murayama's Socialist party and Sakigake, a small group led by Mr Masavoshi Takemura, the finance minister. "There are no longer big differences between the three parties

now." Mr Kamei said. Mr Kamel said the merger could take place some time around the next general elections. Polls are not due until mid-1997 but Mr Murayama is expected to call elections after next year's budget is passed, possibly by the end of March.

ring a salutary 10 months in opposi-tion ending in June last year.

But the NFP has struggled to capitalise on voters' dissatisfaction with the ruling party. It has been beset by internal rivalry reminiscent of the LDP from which its founding members came, and a hint of scandal; and it failed to present itself as a clear alternative.

The NRP did well in local elections last July, but on a small turnout. Its standing in opinion polls has since ebbed to a meagre 14 per cent, less than half the LDP's rating, proof of its failure to excite but also a consequence of the LDP's skill in whipping patronage over policy.

up had publicity over the opposition's connections with a powerful religious

So the winner's first challenge will be to turn the party's fortunes round. Mr Hata is said by NFP officials to have a lead among the party's 490,000 members, but Mr Ozawa may have a slight overall edge thanks, as always,

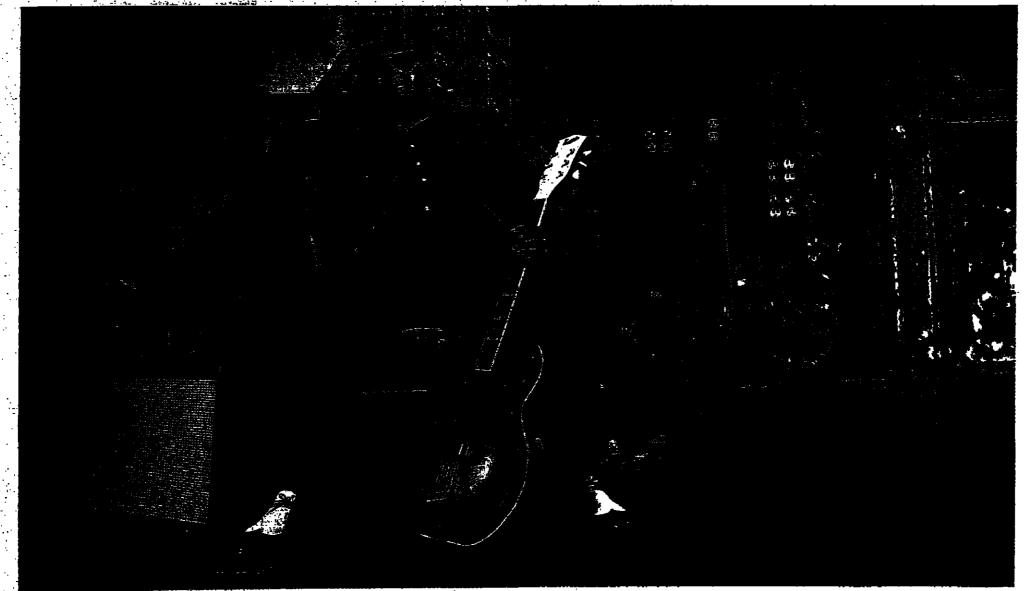
to the strength of his contacts. He has the support of three senior NFP figures, and his campaign manager used to lead a party backed by the labour unions, whose votes may as a result come Mr Ozawa's way. Mr Hata's power base rests with Mr Morihiro Hosokawa, a former prime minister who is popular but lacks clout behind the scenes,

Obligations count for much in Japan and Mr Ozawa is owed the tacit support of Soka Gakkai, the powerful lay Buddhist group, able to mobilise

between 6m and 7m votes. His influence is believed to have prevented Soka Gakkai's spiritual leader from being hauled before the parliament earlier this month to face questions about the group's political interests.

Friends among non-party members would not normally count in a party election. But, uniquely, this one is open to anyone prepared to pay Y1,000 (£6.40). Soka Gakkai has ostentatiously told the faithful to vote as they see fit. In practice, ballot papers may be discreetly distributed to those likely to vote for Mr Ozawa, according to the respected political magazine Shukan Bunshun.

The NFP's experiment with grass roots democracy shows that Japan's political revolution is not as progressive as it seemed at the outset two years ago. But at least the two candidates are seeking to sell their ideas, a change from the former dominance of





cool new sound coming from New

the Swamp Blues after you hummed just three notes.

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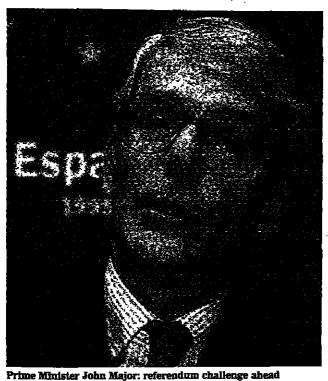


Solutions for a small planet

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Major faces fresh unrest on single currency



Political Editor, in Madrid

The long-running civil war within Britain's governing Conservative party war over a single European currency and the UK's future in the European Union is about to escalate once more, following landmark agreements at the Madrid summit on the path to monetary

The overriding challenge for the prime minister will be how and when to announce a commitment to hold a referendum on whether sterling should enter a single currency.

Such a commitment now seems inevitable, following his decision to resist pressure from his party's powerful Eurosceptic wing that the Tories' general election manifesto should rule out monetary union participation in the lifetime of the next parliament.

On Saturday night he said it would be "folly" to have such a clause in the manifesto, Conservative Eurosceptics were warned yesterday that they would be "shooting themselves in the foot" if they carry out their threat to rebel in tomorrow's knife-edge vote on fishing policy, Robert Shrimsley writes.

The former whipless Euro-rebels are to use the annual fisheries debate to renew their campaign against the European common fisheries

because this would exclude the

UK from a debate on the big-

gest economic decision to be

In deference to Eurosceptic

MPs' concerns, he made it

clear he has given detailed

thought to holding a single

currency referendum in the

UK. "I have never ruled out

the possibility of a referen-

dum," he said. In significant

remarks about the timing and

circumstances for such a plebi-scite, he said "the time would

be after the cabinet wished to

But Mr Major will probably

not commit himself to a refer-

endum immediately, because

recommend going in".

taken in Europe for 40 years.

If they are joined by coastal MPs the government could be defeated. With up to 10 Tories threatening to rebel - and one warning that he could resign the party whip - Mr Malcolm Rifkind, foreign secretary, urged them not to play into Labour's pro-European hands. The vote is purely consultative so defeat

with more than a year to run before his chosen date for a general election, he would risk encouraging Eurosceptic Tory MPs to push for what they want most of all: a decision to

The urgency of their campaign was enhanced at Madrid, with the name for the new currency chosen - the Euro - and a date fixed, early in 1998, for selecting those to join the currency in the first wave. Eurosceptic propaganda over the coming months will therefore become ever louder.

remain outside a single cur-

rency for good.

The Eurosceptic offensive will only be defused if Mr

would not after government policy but would be hugely embarrassing for ministers. Major succeeds in delaying the 1999 start date for currency union. Much of his efforts at Madrid had been taken up with persuading fellow government heads to launch a detailed formal study of the dangers posed by a two-tier monetary Europe,

> countries participating at the outset. He got his way and the work will begin, under the aegis of European finance ministers, next ye

with only a small minority of

However, he backed up the chancellor's judgment_that. there is a 60 per cent chance that monetary union will take place in 1999, in spite of UK

roots restiveness with the Sim Féin leadership, Dublin is aware that the arms issue

could undermine Mr Adams's

authority if pressed too hard.

One Irish official said: "A

debate about decommissioning

can so easily become a debate

Mr Mitchell has declined to

be drawn on the details of the

negotiations, indicating that he was "listening" to various views and had no intention of

expected to discuss the arms

issue on Wednesday at the Anglo-Irish intergovernmental

conference, amid reports that

Mr John Major, the UK prime

minister, plans to visit Dublin

later this week in a bid to bol-

ster the two governments' joint

The arms commission is

position on the peace process.

expected to end its first round

hold a second round of talks in

mid-January. It is due to report

to the two governments by

prejudging the outcome. Irish and UK officials are UK NEWS DIGEST

Rail network to get £10bn boost

Railtrack - the company which owns the track and signalling operations of the former British Rail - yesterday gave a much-needed boost to the British government's plans for rail privatisation with the amouncement of plans to spend £10bn (\$15.2bn) on improving the rail network amid signs of growing opposition to the government's sell-off programme among

The company, which is due to be floated on the stock market next spring, said its 10-year investment programme would allow it to deliver a railway network for the 21st

Mr Robert Horton, Railtrack chairman, commented: "The privatisation of the railway gives Railtrack the freedom to look not just for two or three years ahead but for 10 years or longer: We will be able to develop long-range investment programmes free from the short-term limitations of public

sector finance." The announcement of Railtrack's investment plans represents the most positive news for rail privatisation in recent months. The programme has suffered a stream of reverses, culminating in an Appeal Court ruling last Friday that the tranchising director had acted unlawfully in setting minimum service levels well below the present timetable.

But the announcement came too late to defuse growing anxiety among Conservative MPs. A group of senior Tory MPs will express concern over the progress of privatisation at a meeting with Sir George Young, transport secretary, later this week.

Charles Batchelor. Transport Correspondent

Lloyd's reinsurance plan delay

Lloyd's of London has been forced to delay the seeking of provisional government authorisation this month for the large reinsurance company it plans to launch to take over billions of liabilities outstanding on old insurance policies.

The postponement will add to the pressure Lloyd's executives face early next year when the 300-year-old insurance market's recovery plan is due to be implemented.

The reinsurance vehicle Equitas is crucial to the plan because it would separate Lloyd's from its past problems and

cap liabilities of lossmaking Names, the individuals whose assets have traditionally supported the market. Lloyd's now hopes to receive authorisation by the end of February when Names are due to be told how much Equitas

will cost them. An announcement is expected this week on the sale of

Lloyd's of London Press, which is owned by the insurance market and publishes Lloyd's List, the UK's oldest daily newspaper. The sale is expected to raise £50m-£70m (\$76.5m-\$107m) and is part of fundraising efforts under Lloyd's recovery plan. Ralph Atkins, Insurance Correspondent

Lottery regulator under fire

The future of Mr Peter Davis, Britain's national lottery regulator, was hanging in the balance last night as he prepared to defend his actions to the Department of National Heritage

Mr Davis, the director-general of Oflot, has been called to account for his admission that he accepted free flights from GTech, the lottery equipment manufacturer which is a member of the Camelot consortium to which he awarded the national lottery licence.

He faces an interview with heritage department officials, led by Mr Hadyn Phillips, permanent secretary at the department. Mr Davis has stressed that he will not resign and will have to be forced out. "My conscience is absolutely clear," he said at Robert Shrimsley and Raymond Snoddy

Mobile phone bill shift

Many of Britain's 5m mobile telephone users can expect smaller bills next year because Vodafone, the market leader, is launching new tariffs for its digital services from April. And analysts suggest that Cellnet, owned by British Tele

communications and Securicor, will be forced to follow Vodafone's example, sparking a price war in the UK's mobile telephone market.

Vodafone is reacting to competition from Orange, the network launched by Hutchison Telecom only 20 months ago but which has taken a substantial market share by offering low system, pricing calls by the second instead of the present minimum of one minute and thereafter in units of 30 seconds Kenneth Cooding

Moves to wrap up tissue merger | Irish government

has offered to divest 25 per cent of its expanded UK tissue papermaking capacity to help secure European Commission approval for the merger of the two US companies in Europe. The commission had objected to the merger because

Kimberly Clark, which last week took over Scott Paper,

it calculated that a combined Kimberly Clark/Scott Paper would have 78 per cent of UK capacity for making consumer grade tissues and about 56 per cent of all tissue grades. It would also have dominant

market positions through brands such as Kleenex. Andrex and Scotties and a large share of the own-label retail market, together worth about £750m (\$1.15bn) a year in the UK.

In its complex latest proposals to the commission, Kimberly Clark is understood to have offered to sell either its Prudhoe plant near Newcastle upon Tyne in northern England, or its Larkfield plant near Maidstone, Kent, in the south. They represent respectively about 25 per cent and 20 per cent of the combined group's UK capacity for all

Roderick Oram on Kimberly Clark's offer to divest capacity

Kimberly Clark's preferred option appears to be to find a way to keep Prudhoe by, for example, offering to make toilet tissue there for others. But the signs from Brussels are that the Commission could require it to be sold outright.

P&G. the US consumer goods maker, is a formidable competitor for Kimberly Clark and Scott Paper in the US where it has the leading brand of toilet paper and kitchen towels. But it has limited European paper operations and little in the UK besides its market-leading

Pampers disposable pappies. Rimberly Clark is also believed to have offered to licence for a period the Kleenex name to another manufacturer on toilet paper and kitchen towels but not on facial tissue where the powerful brand is virtually a generic

"We would no more consider licensing Kleenex for facial tissues than Mars would their chocolate bar," a Kimberly

Some competitors and other parties opposed to the merger such as the Consumers Association say dividing the brand and giving only a limited licence life present problems. "It's like splitting Heinz baked beans and Heinz soup," says one competitor.

The idea of splitting the brand and only offering parts of it for a maximum of 10 years is the main unresolved sticking point for many parties opposed to the merger.

differentiate" who owns what said Mr Stephen Locke, policy director at the UK Consumers' Association. "The more successful are Kleenex kitchen towel and bathroom tissue, the more they will benefit Kleenex facial tissues" still owned by Kimberly Clark.

'We want strong competition between Kleenex and Andrex through a clean separation of the brands. This is a litmus test of the EC merger taskforce and its legislation. By the commission's calcula-

Connector? Don't we mean building? Because to most people, connectors are pieces of plastic and metal

don't associate us with buildings. * Well. we're out to change that. First, we're broadening our definition

of connectors. For example, we see today's modern office buildings as connectors, viewing them as networks

definition of connectors has led us to broaden the capabilities of our company.

We've added technologies like network cabling, computer interface cards,

hubs, routers, fiber optics, and wireless components. • And third, we

bring these technologies together to give our customers a network cabling

system with greater connectivity, higher bandwidths, lower maintenance

costs, and a longer useful life. * So while most people looking at a

building wouldn't see a connector, our customers benefit because we do.

AMP Incorporated, Hamsburg, PA 17105-3608. Contact your regional center, USA 1-800-522-6752.

Caracta 905-470-4425, England 44-1753-676800, Sincapore 65-482-0311, Japan 81-44-813-8502.

that go on circuit boards or the ends of cables. And while people do associate AMP with connectors, they

tions, Kimberly Clark's latest offer would cut its share of the combined branded and ownlabel UK toilet paper market by about 14 percentage points from between 50 per cent and 60 per cent; of the kitchen towel market by about 7 percentage points from between 40 per cent and 50 per cent; and of the facial tissue market by 3 percentage points from between 40 per cent and 50 per

There is substantial evidence that UK consumers pay quite a bit more for their toilet, kitchen and facial tissues than continental consumers. Papermakers say price comparisons are unfair because consumers in the UK have the choice of higher quality, more varied and more readily available products than those on the continent.

Last week, shareholders of Kimberly Clark and Scott Paper approved the \$9.4bn worldwide merger although the EC ordered the companies to keep their European operations separate until the antitrust issues were resolved. The EC's decision is expected shortly before a January 22

However, Irish officials hope By John Murray Brown Mr George Mitchell, the former US Senate leader who heads The Irish government will the commission, may be able to today present new proposals on the Northern Ireland peace devise alternative confidence building measures which would enable the unionists to process in an attempt to end join in all-party talks. the impasse over paramilitary weapons when it makes its The IRA's refusal to make first submission to the indeany movement to decommispendent arms commission set sion its large arsenal has been up last month by the London the main stumbling block to and Dublin governments. progress since the ceasefires 15 months ago.

Amid some signs of grass-The Irish are expected to call.

aims to break

weapons impasse

on the IRA to call off punishment beatings and end training and recruitment, arguing that these undertakings should be sufficient to allow Sim Féin, its political wing, into talks on Ulster's future with the other constitutional parties.

Dublin is also seeking a verbal undertaking from Sinn Fein that it has renounced vio-

Britain has demanded that the IRA start decommissioning its weapons before Sinn Fein can join all-party talks on the

Sinn Fein is due to offer its views to the three-man com-mission today. However, Mr Gerry Adams, the party president, warned that Sinn Féin is not a "conduit or a proxy" for the IRA. "The IRA speaks for the IRA," he said. "The IRA has made its position quite clear - it is not going to surrender its weapons to anyone." ported by Dublin, which has repeatedly said that any handover of arms at this stage is

mid-February.

in over a hundred fish pends being buik n de trian Jaya rapafore : eastern Indonesia. 🔮

They also produce an invaluable

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WWF World Wide Fund For Nature

IN INDONESIA WE PROTECT THE RAINFOREST WITH FISH.

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concrete rauks and dig fish ponds. Now an entire companies benefits, and

top Officer at the address below



erty World Wridter Fund)

MERCURY SELECTED TRUST SICAV ("the Company")
Registered Office: 14 rue Léon Thyes, Luxembour
Postal Address: BP 1058, L-1010 Luxembourg

NOTICE OF EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS OF THE COMPANY

The Extraordinary General Meeting of Shareholders of Mercury Selected Itust will be held at 6D, route de Trèves, Senningerberg, Luxembourg at 11.00 am on 10th January 1996, for the purpose of considering and voting upon a proposal to amend the Articles of Association. Such amendments will include in particular provisions:

for the transfer of the Company's registered office to ningerberg: sading the requirements for the sanction of

amending the requirements for the sanction of increases in management and costody charges; as to the exercise of rights by joint holders of Shareshing the Directors to require the deposit of certificates and compons prior to any dealing in Bearer Shares; amending the requirements for valuation of securities held by the Company; permitting the Directors to decline to accept subscriptions of and conventions into Shares of say class, and enabling the Directors to fix the threshold at which redemptions and convension of Shares of any class may be deferred; permitting the creation of more than one class of Shares linked to the same Fund.

If a quorum is not present at the above Extraordinary General Meeting of Shareholders, a further Extraordinary General Meeting will be convened and held at the same address on 14th February 1996 at 11.00 a.m. to consider no vote on the proposal mentioned above. At such feeting there will be no quantum requirement and the esolution on the Agenda will be passed by a majority of per cent. of the votes cast thereon at the Management of

NOTICE OF EXTRAORDINARY GENERAL MEETINGS OF SHAREHOLDERS OF CERTAIN FUNDS OF THE COMPANY

GLOBAL EQUITY FUND Extraordinary General Meet An Extraordinary General Meeting of Shareholders of Meeting Selected Trust - Yen Global Equity Fund will be held at 6D, route de Treves, Senningerberg, Luxembourg at 11.15 a.m. on 10th January 1996, for the purpose of considering and voting upon the following resolution:

 To increase the total management and adm fees to 1.50 per cent. from 29th February 1996. HONG KONG FUND An Extraordinary General Meeting of Shareholders of Mencury Selected Trust - Hong Kong Fund will be held at 6D, route de Trèves, Senningerbers, Luxembourg at 11.20 a.m. on 10th January 1996, for the purpose of considering and voting upon the following resolution:

To increase the total management and admi-fees to 1.50 per cent. from 29th February 1996.

EUROPEAN, JAPAN AND NORTH AMERICAN OPPORTUNITIES FUNDS
Extraordinary General Meetings of Sharcholders of Mercury Selected Trust - European, Japan and North American Opportunities Funds will be held at 6D, rosite de Titres, Senningerberg, Luxembourg at 11.25 a.m., 11.30 a.m. and 11.35 a.m. respectively on 10th January 1996, for the purpose of considering and voting upon the full actions resolution:

To increase the total management and adm fees to 1.50 per cent from 29th February 1996.

18th December 1995

DM, DOLLAR, STERLING AND SWISS FRANC RESERVE FUNDS

RESERVE FUNDS

Extraordinary General Meetings of Shareholders of Mercury Selected Trust - DM, Dollar, Sterling and Swiss Franc Reserve Funds will be held at fill, rouse de Trèves. Sensingerberg, Luxembourg at 11.40 a.m., 11.45 a.m., 11.50 a.m. and 11.55 a.m. respectively on 10th January 1996, for the purpose of considering and voting upon the following resolutions:

tollowing resolutions:

1. To increase the total management and administration fees to 0.75 per cent. from 29th February 1996.

2. To approve a one for ten share consolidation for the Dollar Reserve Fund.

N.R. This Resolution may be passed with a quantum of 50 per cent. of the issued Shares by a imajority of 75 per cent. of the votes cast thereon at the Meeting. If a quantum is not present, a further Meeting will be convened at the same address on 14th February 1996 at 11.10 a.m. to consider and vote on this Resolution. At such meeting there will be no quantum requirement and the Resolution will be passed by a majority of 75 per cent. of the votes cast thereon at the Meeting.

Voting
Unless otherwise stated, the Resolutions on the Agendas of
the Extraordinary General Meetings of Shareholders of the
Funds may be passed without a quorum by simple insjority of the votes cast theron at the Meeting.

Voting Arrangements
In order to vote at the Meetings.

Voting Arrangements
In order to vote at the Meetings:

the holders of Bearer Shares must deposit their shares with any of the Company's Paying Agents listed below not later than 5th January 1996 or with any bank or financial institution acceptable to the Company, and the relevant Deposit Receipts (which may be obtained from the Administrator or the Paying Agents of the Company) must be forwarded to the Administrator to arrive not later than 5th January 1996. The Shares so deposited will remain blocked until the day after the Meetings or any adjournment thereof;
the holders of Registered Shares may be present in person or represented by a duly appointed proxy. Shareholders who cannot attend the Meetings in person are invited to send a duly completed and signed proxy form to the Administrator of the Company to arrive not later than 8 th January 1996. Information for Shareholders

Shareholders are advised that a copy of the Circular dated 18th December, 1995 may be obtained and a draft, subject to amendment, of the proposed new Articles is available for inspection at the following places and at the ADMINISTRATOR:

ADMINISTRATOR:

Mercury Asset Management S.A. 6D, route de Treves, HONG KONG REPRESENTATIVE: Mercury Asset Management Asia Led., Unit 3603-05, 36/F Citibank Tower,

PAYING AGENTS:

S.C. Warburg & Co. Ltd., Paying Agency, 2 Findbury Avenue LONDON ECZM 2PP Commerzbank AG, FRANKFURT/MAIN, DUSSELDORF, HAMBURG Mercury Bank AG

Garrenstrasse 26 8039 ZURICH, Switzerland

The Board of Directors

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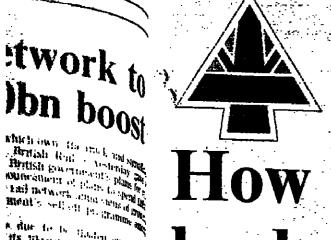
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It was within an ace of becoming Britain's biggest corporate collapse. Now it is a pivotal player in Europe's aerospace industry. In a special report, today and tomorrow, Bernard Gray explains ...

How BAe pulled back from the brink

our years ago Brit-ish Aerospace stood on the brink of failure. The company was Britain's biggest exporter, the maker of Rover cars. Tornado fighters and a partner in Airbus. It had turnover of £10bn a year, yet it was within an ace of becoming Britain's biggest corporate collapse. Tolay, BAe is one of the strongest aerospace companies in Europe, and may well lead the consilidation of the Euro-pean defince industry. This remarkable transforma-

tion has required a huge restructuring of BAe's operations and a revolution in its manufacturing techniques and mangement style.

Almos everything about the company has had to change from decsions at the top about future srategy to the smallest working practices on the shop floor. "Everyone has had to go through a great deal of pain to transforn the company," says Dick Eans, BAe's chief executive. lowever, BAe cannot afford ny complacency. It is in fiercel competitive markets heavil reliant on two major defene projects and its productivty still needs improving. The tough regime means BAe i better placed than most European companies to cope with rastic changes sweeping through the global aerospace

inducry, as military budgets are lashed in the post cold warera and commercial aircraf markets become ever mor competitive. The US indstry is consolidating rapidly and the same process fact Europe. Tie company's near-collanse wa: all the more dramatic because it came as such a

shck to the outside world. BA, after all, appeared to be blesed with strong cash flow, a blid balance sheet and a heithy order book. Even its fortunes were looking up: it.

City advisers had little twas inshipmenting experim that wrining of the trouble abead. of impactant a decade of the adviser recalls that in losses.

Rover's surplus land, as with

a outine meeting with Profesran. "Almost out of the blue before Smith became chairb said to me, 'could we do a man, was in good locations' ghts issue?" I thought, BAe such as Oxford and Enfield and as money in the bank, why oes it need a rights issue? hen I realised that something was badly wrong."
The rest of the world realised

a few months later when BAe announced its £432m rights it the impression of substance issue. It ushered in a run of bad news which sent the share price plunging from almost 26 per's ability to cope. to around £1 over the course of the following year. Its recovery, to almost £8 today, has been almost as dramatic as the sat on the balance sheet and company's fortunes.

life as a disparate group of Even the surplus land, which businesses brought together as BAe pushed unbrella of Arlington Securi-Labour government in 1977 and floated off four years later in one of the first Conservative privatisations. Many BAe managers see the small balance sheet the company had at privatisation as the source of its problems. To them, its technological and engineering skills

never had the financial strength to support them. There is some justice to first view. In 1981 the Ministry of Defence all but indemnified companies against losses. Development work, and even most manufacturing, was done at the MoD's risk: defence contractors simply earned a profit according to a formula set out by Whitehall.

Most of BAe's work fell into this category so it had little need of a large balance sheet to bear the brunt of risk.

Times, however, were changing. By the mid-1980s Sir Peter Levene's reform of the MoD's procurement system was beginning to force more risk on to defence companies. BAe was also increasingly involved in two areas which required capital: civil aircraft and defence exports. Most notably, it won a £20bn oil-for-aircraft deal with Saudi Arabia, known as the Al Yamamah contract.

rof Smith, the former head of stores group House of Fraser, who took of BAe from Sir Austin Pearce in 1987, thought he had the answer to the halance sheet problems. Within 12 months he had bought Rover, the UK car group, from the government for a song. Its huge assets apparently bolstered BAe's balance sheet, and the carmaker's

that of Royal Ordnance, was ripe for redevelopment in a booming property market

But buying Rover was a blunder. It was like being given a big country house, given a big country house, the rights issue flopped.
without the wealth to naintain Dick Evans, a bluff Lancasgives comfort, but the financial demands soon swamp the Bautools, robots and stocks, were simply not useful to BAe. They

action needed to revive the made the City comfortable, but they could not be redeployed to The seeds of BAe's problems add weight to the core military lie deep in its past. It started and civil aircraft husinesses.

ties after it had paid an eyebrow-raising £278m for the company in 1989, proved dead weight. The property market had topped out and business parks would prove hard to turn into cash.

Worse, Rover kept gobbling up cash. Executives from the car company would arrive at BAe's headquarters periodi-cally and ask for another £200m for new model development. "Havn't you just had £200m?" would come the reply. They had, but the inexorable demands of the car market meant a constant cash drain which BAs could ill-afford.

The pain intensified with the simultaneous downturn in the civil aircraft market and military cuts at the end of the cold war. BAe had been manufac-turing regional jets for about \$20m, selling them to finance houses for \$25m and at the same time agreeing to lease them back at high rates for 25 years. BAs would then place the aircraft, normally with poorer, weaker airlines on, say, five year leases with options to return the jets earlier if necessary. The apparent \$5m profit was booked.

As recession struck, many airlines returned the jets. Since their real value was only around \$15m they could only be rented out at poor lease rates which did not nearly cover the cost of BAe's own lease payments, if they could sed at all. Yet while cash was flowing out, new aircraft were still being made and profits were still showing up in the company's accounts.

By 1991, cash was flowing out of Rover, out of commer cial aircraft and even out of property, as the ambitious Arington continued to spend. What masked the problem was: cath coming in from Saudi Aratic But this was advance payment for aircraft which had to be built, and as these were made most of the cash flowed

BAe's rights issue document. revealed that £800m had flowed out in the first eight months of 1991 and that profits would be half those in 1990. As the share price plummeted, Prof Smith was forced from the chair and

BAe's northern military airgraft business, survived aschief executive partly because Rover's assets, tied up in the was credited with holding the keys to the relationship with Sandi Arabia: a link deemed central to BAe's surwival. His relationship with Smith had been strained as both were dominant personalities. Sir Graham Day, a former

trian who had come from

Even the surplus land, which head of Rover and a BAe board member, stepped in as caretaker chairman and began looking for a new management team and solutions to the crisis. After several senior businessmen had turned down what seemed to be a poisoned chalice, John Cahill, a slightly stiff and formal man who had previously been chief executive

of BTR, took the chair. Evans promoted Mike Turner, who had been a highly successful head of defence sales, to run the civil aircraft business. John Weston, an engineer who had risen rapidly, had already started to reform the defence business. George Simpson, a tough Scot, remained as chief executive of Rover. In the summer of 1992, Richard Lapthorne, an accountant who was highly regarded in the City, joined from Courtaulds as finance director.

he first priority was to stop the cash outflow. The longer term strategy was to focus on the defence business, which was profitable and which the company understood, and to put the civil aircraft business on a viable footing. Interim results in September 1992 showed that for every £1 earned in defence, 97p was lost in civil aircraft.

Turner produced a plan to cut costs in the regional jet business and form a joint venture with Taiwan Aerospace. which was looking for a foothold in the sector. But if the Taiwan deal fell through, the business was to be closed, and in September 1992 the company took a £1bn charge, enough to accomplish a shutdown as well as writing off the cost of the accumulated aircraft leases. While the joint venture with Taiwan came to nothing, the cost reduction was sufficiently successful that the regional jet production line was kept open. To release cash, everything

which was not central to the defence and civil aerospace Corporate jets, which needed heavy investment for a new generation of products, went to Raytheon; Ballast Nedham, a Dutch construction company no longer needed for large proiects in Saudi Arabia, to a consortium led by ING bank; the satellite business to Matra Marconi Space. Arlington, which could not realistically be -sold in the short term, was run

Two external developments also bolstered the company's position. In late 1992, following a strong stand by Malcohn Rifkind, UK defence secretary, Germany withdrew a threat to quit the Eurofighter pro-

to generate cash.



aircraft business. In January 1993. Sandi Arabia signed the contract for the second stage of the Al Yamamah deal, which produces £2bn a year in revenue to the company. It also escaped the financial constraints of banking covenants which prevented it from falling below an agreed level of assets. It refinanced its bank debt in 1993, replacing the asset measures with earnings targets. From that moment it became

possible to sell Rover, with its Cahill's views often differed umusable assets, and turn a fin- from the rest of the executives,

but its initial offer was not high enough. When it came back early in 1994 with the £800m BAe had asked for. BMW's only condition was that the deal was done quickly. All these cuts, culminating in the Rover sale, took BAe full circle, back to its defence and civil aircraft core business, albeit with the same problem:

a small balance sheet. But relations within the management team had become strained.

him leave in April 1994, to be replaced by Bob Bauman, the former SmithKline Beecham chief executive, whose easier style fitted better with Evans's tough approach.
Ironically, now that the com-

pany is back in calmer waters, its balance sheet is likely to be bolstered by a jewel which lay almost un-noticed for years in BAe's jumble of businesses - a stake in the cellular phone network now known as Orange. When Orange is floated, proba-bly in the first half of next are badly needed.

Financially strengthened and with its cost base down. BAe has been through much of the pain which is now striking its continental competitors. The heavy losses at Daimler-Benz Aerospace and Aerospatiale are a reminder that BAe's difficulties are by no means unique. Having resolved the problems first, however, BAe has created the capacity to influence the future of the European industry at a time

may be worth 2600m.

'Managers must have the courage to trust their people'

t BAe's Chester factory, anese and American companies. However, which makes wings for Air they are not the result of a decision by which makes wings for Air-bus, there is a hint of religous zeal in the air. Despite a halving of staff numbers over five years, morale is high. Everyone seems committed to beating Boeing for leadership of the world airliner market. The visitor is also struck by signs of a

dramatic change in working practices. The plant has introduced Japanese style "cells" self-contained teams of workers - whose notice boards detail everything from fac-tory profitability to production rates and current problems. Chester – and other factories in the

group such as the Samlesbury and Warton military aircraft operations near Preston bear witness to a revolution in both attitudes and production processes in manufacturing operations. The result has been sharply increased productivity and a new aggression towards markets.

It is a far cry from five years ago when were locked in a bitter engineering unions For Kevin Smith, until recently the manstrike. Samlesbury has become a showpiece factory, with £38m of new investment. Lostock, a neighbouring site producing missiles, won the Department of Trade and Industry award for most improved factory last year. Chester was held up earlier this year by Roger Freeman, the then defence procurement minister, as an example of a world-beating site.

Competitors want to know how it has been done. Production line managers from McDonnell Douglas's vast fighter plant in St Louis have visited Samlesbury to study its ways of working. Aerospatiale and Daimler-Benz Aerospace are trying to find out how BAe manufactures its Airbus own crisis, so each found a different

its continental partners. The changes draw heavily on long-established Japanese "lean manufacturing" techniques, which streamline the production process, and the Total Quality Mantion process, and the Total quanty many agement ideas adopted widely among Japhierarchy.

BAe's top management to introduce the latest methods at a stroke across the group. Rather, they stem from individual decisions taken by each of BAe's businesses in a desperate light for survival - and they have been accompanied by factory closures and heavy job losses.

In the civil aircraft business, employment fell from 25,500 to 11,500 between 1991 and 1995. Defence has been cut from 61,000 employees in 1988 to just under 30,000 today, with the Dynamics missiles business hard bit its staff numbers have been slashed from 25,000 in 1989 to 2,500.

"We had to find new ways of working if we were going to survive," says John Weston, chairman of BAs's defence business. "... the downturn in many markets was so severe that we could not be competitive by manufacturing in the same old way and cutting costs in the same old way." Each business faced its own moment of

several factories, including Samlesbury, truth some time between 1988 and 1991 aging director of the military arcuaft business, the crunch was the cancellation of the eighth batch of Turnado aircraft for the Royal Air Force following the fall of the Berlin Wall Chris Geoghegan, who runs BAe's Airbus division, points to the need to scale up output when the highly successful Airbus A320 came on line. The company could no longer treat the operation as a hand-made cottage industry. Mike Turner, chairman of BAe's civil aircraft business, says the regional jet operation realised it had to halve manufactur-

out how BAe manuactures its am source of inspiration.

components so much more efficiently than source of inspiration.

Many plants were influenced by one of BAe's own businesses: Rover, the car and hope to survive, since some of its manufacturer in which Honda took a defence operations bought in up to 85 per stake, had already infroduced Japanese cells, cut-stocks and removed layers of



Weston: had to find new ways of working

Kawasaki, the Japanese engineering company which produced parts for BAe's civil aircraft business, was another important factor in introducing BAe to lean manufacturing ideas. Dick Evans, BAe's chief executive, invited a team from Japan to-look at the way BAe operated and suggest changes. Several of the businesses brought in consultants. At BAe Defence, the turnaround effort began with a series of brainstorming sessions organised by John Weston early in 1990.

Whatever the source, each team came up with remarkably similar answers. Seving costs or close the production line. eral were obvious: workforces needed to be
Just as each of the businesses had its cut, in many cases drastically; stocks and work-in-progress had to be slashed. Suppliers had to be persuaded to cut their cost bases. BAe could not do so alone

cent of the value of their final product. Lean production techniques led to the formation of manufacturing cells, flexible force, but Boeing.

teams which eliminated job specialities and hierarchical grades. Self-certification reduced the need for inspections by qual-ity controllers. Central stores were removed at several sites, including Samlesbury. In their place came kits, containing all the parts necessary for a cell to complete a particular task.

Since the kit box is transparent, it is immediately obvious if a part is missing. and preventing the completion of an assembly. Once the cell starts using a kit, another is automatically called for to replace it, "pulling" stock through the system in a Japanese Kanban technique. This sharply reduces the volume of parts held in store, and completion rates rise because there are fewer shortages.

The businesses also rationalised the number of suppliers and developed ways to work closely with those that remained. "We buy in over 50 per cent of our equip-ment in civil aircraft," says Mike Turner, "and our suppliers buy in 50 per cent of their goods. So there are tremendous gains to be made from working together." The changes have put many of BAe's businesses back on a commercial footing.

Its civil aircraft business, having run up operating losses of £337m in 1992 will be back to profit by 1997. The time taken to produce a wing for an Airbus A320 has fallen from 108 days to 59 and the final assembly of a Tornado takes half the time it did four years ago.

Perhaps surprisingly, the changes in working practice and job cuts have been achieved without industrial strife. Both management and workers have had to suspend the entrenched, cynical attitudes which have dogged British manufacturing.

Fear has been a powerful catalyst. The BAe labour force realised that drastic change was necessary if the company was to survive in the face of intensifying global competition. For example, Chester's Airbus wing factory recognises that the opposition is not its own management or work-

Jack Dromey of the Transport and Gen- it is really important. Some of its top peoeral Workers Union accepts that change is inevitable if BAe is to prosper and broadly welcomes Japanese manufacturing techniques. "The workforce understands the need for increased productivity but job insecurity is a concern."

BAq's managers, for their part, recognised they must set clear goals and com-municate the need for change if they were to win understanding and co-operation. Once you have explained the challenge

and broken down the initial suspicion, you can take an item to the team that makes it and say, 'if we cannot produce this part for half its current cost, we are going to lose the business'," says Chris Geoghegan. Then you let them come up with solutions. It is amazing how creative people can be." John Weston adds: "Managers must have the courage to trust their people, it is the only way to get the process started."

. BAe operations, conscious that competitors are eroding the gains they have made in recent years, have produced "stretch" targets to get another quantum improvement in productivity. Central managment has also become involved. For the past year it has been trying to co-ordinate the efforts of the various businesses and establish a common approach to management systems and processes. It hopes this will bind the businesses and improve the flow of technology, manufacturing and business ideas across the group,

The team behind the initiative started with BAe's top 25 managers and has expanded to the top 130. From there the group's ideas, which centre around setting a list of standards for the company, will roll out across BAe next year, with the emphasis on encouraging involvement.

One consultant closely involved in the initiative says that a culture of change has really caught hold inside BAe. "Often when companies try to change, the process stops the moment the consultant walks out of the door. But BAe has decided that

ple are spending a third of their time on this programme."

Kevin Smith, who was appointed to run the corporate change programme last month, says the focus is on improving results, rather than on change for its own sake. "In issues such as cycle times to manufacture items and reducing product costs, there will be radical changes in our approach. We will be setting demanding targets and want to establish performance that is better than anyone else." One tool being used to standardise BAe's

approach is the European Foundation for Quality Management model (sec graphic above) which scores a company's performance, both in how its processes work and the results which flow from them.

Companies can assess themselves on a range of criteria, from leadership skills to production processes and customer satisfaction, to get an overall view of their business performance and financial results. BAe currently lags well behind the best performing companies in Europe, such as Hewlett Packard and BOC, but the model focuses attention on areas which need improvement. Within the aerospace industry, BAe has gained a great advantage with its revolution in working practices. For while the ideas it has implemented are common in some manufacturing industries - notably cars the aerospace sector has been much slower to adopt them.

Many US companies have consolidated. but have not yet adopted the techniques. Continental European companies are only beginning painful change. The upheaval on BAe's shop floor may prove as important as its financial overhaul in giving the company a leading role in the restructuring of Europe's aerospace industry.

Where BAe goes from here

Do Sb FRN 2004 £179.20 Newcastle Bldg Scty 10%%

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Ebara 7.2% Bd 1998 Y720000.0 Export-import Bank of Japan 81/4% Gtd Bd 2004 \$412.50 1995 A\$100.0 Gaz Metropolitain 10%% Db Dec 1995 C\$108.75 General Motors Acceptance 10%% Nts 1995 £106.25 Gold Int Fin Tranche A Fxd/FRN 2002 Y5500000.0 Do Tranche B 2002 Y311232.0 Hankyu 5.85% Bd 2002 Y585000.0 Do FRN 1996 Y21012.0

UK COMPANIES

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est inc 7st, 3. Firsbury Ave. E.C.,

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BOARD MEETINGS:

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■ TOMORROW Barciays Fin (Jersey) 10%% Secd Dep Nts 1995 \$1062.50 Birmingham Midshires Bidg Scty FRN 2000 £171.40 CSR Fin 71/2% Gtd Bd 1995 DBS Mingmint 3.5p Dickie (James) 3.5p Essex & Suffolk Water A 43.4p Do N/vig B 43.4p Export-Import Bank of Japan 8½% Gtd Bd 1987 C\$85.0 Finsbury Growth Tst 2.1p

Forte 7%% Nts 1996 \$775.0 Fujitsu 7%% Bd 1997 Y737500.0 Graystone 0.34p Hitachi Credit 7/6% Nts 1996 NT & T 9½% Nts 1995 \$475.0 Oversees Inv Tst 2.6p Speciality Shops 0.8p

WEDNESDAY DECEMBER 20 Alcan Aluminium \$0.15 Assoc British Ports 11%% Bd Bradford & Bingley Bidg Scty FRN 2005 £18979.11 Burmah Castrol (Jersey) 91/2% Cv Bd 2006 £47.50 Coventry Bidg Scty FRN 1997 £172.96 DKB Int Fxd/FRN Dec 2004 Daiwa Int Fin (Cayman) 7%% Bd 2006 \$7875.0 Eksportfinans 6% Nts 1999 C\$60.0 Enron \$0.2125

Perp Db £1.75 Do 4% Perp Db £2.0 Do 5% Perp Db \$2.50 Fidelity Special Values 1p
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THURSDAY

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Do Class M1 2197.27 Do Class M2 2202.26 Do Class B £275.80 Ex-Lands 0.5p Foreign & Colonial Eurotrust 1.25p Fuerzas Elec de Catalura 7.81% Global Nts 2001 Pte78100000.0 Do 7:81% Nts B 2001 Pts78100000.0 Do Nits C 2001 Pts 78100000.0 HSBC Americas FRN 2009 Hercules \$0.21 Lasmo 10%% Db 2009 £5.1875 Lowland Inv 6.5p Malaysia Mining M\$0.11 Mansfield Brewery 1.7p Marks & Spencer Fin 7%% Gtd Nts 1998 273.75 Mitsui Step-up Nts 1997

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Do 4% Cons Irrd £2.0 | Metropolitan Water Ken Water Works 3% Db £1.50 II FREDAY DECEMBER 22 COMPANY MEETING: Ex-Lunds, Stormouter Court, F.C., 10,00 AND MEETING: Firet Kelony indi agh Ince Tat, Donaldson Ho

PUBLIC NOTICES



PROPOSED MODIFICATIONS OF THE CONDITIONS OF THE LICENCE OF BRITISH TELECOMMUNICATIONS PLC (BT)

1. The Director General of Telecommunications (the "Director") in accordance with section 15(3) of the Telecommunications Act 1984 (the "Act") hereby gives notice that, following his consideration of the report of the Monopolies and Mergers Commission (the Commission) on the reference made by him on

27 April 1995 with respect to number portability (the "Reference"), and having had regard to the modifications specified by the Commission by which the adverse effects specified in that report could be remedied, he proposes to make modifications to the licence granted to British Telecommunications on 22 June 1984

2. The effect of the modifications which the Director proposes to make is set out in

3. The Director proposes to make the modifications for the following reasons:

(1) In making the Reference, the Director required the Commission to investigate and report on certain questions relating to the matter specified in the Reference. The matter was that, since BT had been unable to reach agreement on the question of costs with a telecommunications operator to which, under the BT licence, it had been directed to provide portability, and since the BT licence made no provision for the Director to resolve such a dispute, and the unresolved dispute impeded the conclusion of negotiations, BT had not introduced number portability;

(2) In reporting to the Director, the Commission concluded that this matter operates and may be expected to operate against the public interest and specified

(a) that competition in the market for directly provided telecommunication services is being and can be expected to continue to be, inhibited; and

(b) this inhibition of competition is detrimental to the interests of consumers in that prices charged for telecommunications services are likely to be higher, quality and variety of service lower and choice diminished compared to what would otherwise be the case:

(3) Having had regard to the modifications specified by the Commission, the Director's proposed modifications are, in the Director's opinion, requisite for the purpose of remedying or preventing the adverse effects specified in the Report in that the conditions of the licence as modified under the proposal and having the effects set out in the Schedule below would facilitate the introduction of number portability and constitute the most effective means of achieving that end.

4. The Director is required by section 15(3) of the Act to consider any representations or objections which are duly made and not withdrawn.

5. Representations or objections to the proposed modifications may be made to: Alex Blowers, OFTEL, 50 Ludgate Hill, London EC4M 7|| (telephone:0171-634-8798) no later than 19 january 1996.

Copies of the proposed modifications may be obtained from Andrew Tarrant at the above address (telephone: 0171-634-8781).

[Note: Number portability is a facility provided by one telecommunications operator to another whereby a customer of one such operator can switch supply of directlyprovided telecommunication services and retain the original number.]

1. Condition 34B would be modified so as to delete references to number portability and its implementation and to re-number existing provisions accordingly.

2. Condition 34C would set out all provisions in the BT licence relating to the provision of number portability.

3. The Director would have a power to direct BT to provide number portability to any Qualifying Operator from a specified date and in accordance with a Functional

4. The definition of number portability, called Portability in the modification, is based on the same definition as that used in the Reference, it is intended that the definition of Portability would embrace the provision of a facility to operators that will not only allow customers to retain use of the telephone numbers which relate to the property where they live or work, (geographic portability) but also allow customers for services such as freephone (0800), local charge(0345) and premium rate services (0898) to change operators (non-geographic portability) while retaining the same numbers. The definition is also intended to cover continued service from the operator, by reference to the same number, if the customer moves from his place of work or home and wishes to keep his original telephone number (mobility). Neither ographic portability nor mobility can be offered, for technical reasons, at resent. The Functional Specification is a document which is produced by the Director, following consultation with BT and other interested parties. As technical capabilities develop, so the Functional Specification will set out the technical methods by which non-geographic portability and mobility may be provided.

5. In order to fall within the definition of Qualified Operator, an operator must notify BT that it is, within a specified period from the date of the notice, in a position to provide reciprocal Portability in the area in which it operates.

6. The existing licence condition makes provision for a separate direction to be made with respect to each operator, provided that portability is technically feasible, a cost-benefit analysis has been carried out and consulted on, and the operator is willing to agree to provide reciprocal Portability. The Commission's Report and specified modification indicated that only the requirements of technical feasibility and reciprocal portability should be retained. Under the proposed modification, the Functions Specification will deal with technical feasibility, and the operator's offer to provide reciprocal Portability will remain as a pre-requisite to BT's obligation to provide Portability. The making of a single direction as proposed by the modification would avoid any unnecessary administrative delay which might be caused if a separate direction had to be made with respect to each operator who required BT to provide it with Portability.

7. Following the making of the direction, it is proposed that the Director would make a determination of BT's reasonable costs and the standard charges it may

make to operators for the provision of Portability, which would allow the recovery of those costs and be subject to certain rules set out in the condition. The Director considers it essential, given the existing delay in the introduction of Portability and the adverse effects found by the Commission, to ensure there should be no reason for any further delay on the grounds of inability to agree financial terms between BT and other operators, and to this end would propose to have the power to make such a determination so that BT will be required to provide Portability on reasonable terms. The first determination would cover the period from the date specified in the direction to 31 March 1997, and thereafter determinations would be made in respect of each financial year. Each determination would be based on fully allocated costs, and calculated on the basis of the Financial Statements and Forecasts produced by BT for the purposes of its obligations under the interconnection and accounting separation provisions in its licence, unless at some future date the costtermining interconnection charges is altered, in which case the costs and charges for Portability will be brought into line. The cost-basis and the circumstances under which it might alter were specified in the Commission's modification.

8. Determinations will specify BT's costs within the various categories referred to by the Commission - System Set-Up Costs, Per Line Set-Up Costs, Administrative Costs and Additional Conveyance Costs. As under certain provisions specified by the Commission, BTs System Set-Up Costs are Irrecoverable, as are its Additional Conveyance Costs after 31 October 1997. Between the time when BT first provides Portability until 31 October 1997, the proposed modification would follow the formula specified in the Commission's modification on the costs of Additional the costs of providing Portability under the more to efficient method known as Call Drop-Back are to be subtracted from the costs of its provision during that initial period, and only half of those costs may be recovered in charges to Qualifying Operators. Accordingly, the standard charges determined would allow for the recovery of Per Line Set-Up Costs, Administrative Costs and, to the limited extent set out in the provisions, Additional Conveyance Costs. This reflects the modification proposed by the Commission.

9. As under the Commission's proposal, the Director would first have a power to determine that any cost is not reasonable if lower cost methods could have been used to implement any particular aspect of Portability, and in such an event, he could disallow such a cost either in whole or in part. Second, the Director would determine into which category of cost any individual item ought properly to fall. In the event that the Director considered that any item of cost, did not reasonably fall within any of the specified categories, the Director would have a residual discretion as to whether and to what extent such an item should reasonably be recoverable. Finally, in making any of the annual determinations of costs and charges, there will inevitably be an element of estimation, since the annual determinations are to be made on the basis of BT's Financial Statements and Forecasts. The propose modification would therefore provide for subsequent determinations to take account of inaccurate estimates

10. Provision is made for a consultation procedure to be followed before making any determination under the modified condition.

1. The Director General of Telecommunications (the "Director") in accordance with section 12 (2) of the Telecommunications Act 1984 (the "Act") hereby gives notice that he proposes to make modifications to the licence granted to British Telecommunications on 22 June 1984 (the "BT Licence").

2. The principal modifications which the Director proposes to make are described in the Schedule below. The Director also proposes to make a number of minor and consequential modifications for the purposes of the principal proposed modifications as well as some minor amendments to the Interconnection and Accounting Separation modifications made on 31 March 1995.

3. The Director proposes to make the modifications described in the Schedule in order to remove a regulatory constraint on BT's retail pricing which he considers is no longer appropriate in an increasingly competitive market. The Director hopes this will encourage BT to introduce a greater choice for customers through more varied packages of exchange line rental and call charges. The modifications ensure that those with low bills have continued protection. Removing the RPI+2% constraint on BT's line rental charges, allows the abolition of the access deficit contribution regime. This will increase the transparency, simplicity and fairness of Interconnection arrangements and reduce uncertainty for those investing in the UK telecoms industry.

4. The Director is required by section 12(2) of the Act to consider any representations or objections which are duly made and not withdrawn. Following consultation, the Director proposes to make the modifications forthwith following BT's agreement to them.

5. Representations on or objections to the proposed modifications may be made to - Natasha Good. OFTEL 50 Ludgate Hill, London EC4M 7]] (telephone: 0171 634 8925) no later than 16 January 1996.

Any confidential material should be clearly marked as such and separated out into a confidential annex. All representations or objections received by OFTEL, with the exception of material marked confidential, will be made available for inspection in OFTEL s library. OFTEL encourages interested parties to place the non-confidential parts of their representations, objections and comments on their own internet pages, in addition to sending OFTEL a hard copy. Comments on this document (if they are relatively short) can also be sent to OFTEL at the following e-mail address: press.office.oftel@gtnet.gov.uk

6. In a second stage of consultation, interested parties are invited to send comments to OFTEL no later than 30 January 1996 on the representations and objections received in the first stage. Copies of the proposed modifications (with an explanatory memorandum) may be obtained from Peter Hammond at the above address (telephone: 0171 634 8841).

SCHEDULE

Proposed Principal Modifications of Conditions of the BT Licence Removal of RPI+2% restriction (Condition 24A)

The proposed modification would remove the restriction on BT limiting any increase In the price it charges for the use and ordinary maintenance of an exchange line to 2% above the level of RPI. BT would be able to set its line rental charges at levels determined by its commercial Judgment, not regulation. The proposals would not affect the obligation on BT under Condition 24D to protect vulnerable residential customers with low bills (see proposed modification to Condition 24D below). BT would still have to meet the overall RPI-7.5% price cap on its rental and call prices. Where charges are imposed only as part of packages, the proposed modifications would require BT to specify as reference prices a single charge for each of residential exchange line rental and business exchange line rental, and a single charge for each different type of call (the same charge for both residential or busing Reference prices would have to be offered by BT to customers. It would be against these reference prices that BT's compliance with the overall price cap requirements (the Controlling Percentage) would be measured. Other combinations of rental and call charges offered by BT would contribute to BT's Discount Yield (see proposed modification to Condition 24C below).

Abolishing ADCs (Condition 13)

The Director proposes that these modifications should come into effect on or about 8 February 1996. The proposed modification would provide that, where the Director determines any interconnection charge under Condition 13, that charge would only cover a contribution towards BT's access deficit (the "Contribution" until 7 February 1996 and BT would not be able to require any operator to pay a Contribution in relation to any period commencing after then, notwithstanding any agreement or determination. The obligation on BT to provide a forecast of the Contribution in future years would be removed. (When Contributions are no longer payable there can be no determination that BT will pay an access deficit contribution to another operator under Condition 13.58.2).

Redundant provisions allowing the Director to require BT to reduce the costs on which the access deficit is calculated if it fails to meet an efficiency standard for the years beginning I August 1991 and I August 1992 would be deleted. Standard Services(Condition 16B)

The proposed modifications would delete certain redundant references to the

Two tidying up modifications to the Interconnection and Accounting Separation licence modifications agreed at the end of March 1995 are proposed. One provides that where BT offers to provide a Standard Service at a New Charge (being below

the charge determined for that Service), the Director may consent to back-dating of the New Charge. The second modification would enable BT to seek the Director's consent to the removal of a Service from the List of Standard Services, where for example that Service had ceased to be a Standard Service. Before giving consent in either case, the Director would have to consult with BT and Interested Parties. Treatment of Packages (Condition 24C)

BT is required to forecast annually the amount of revenue it will forgo as a result of discounts it offers to its customers (the Discount Yield). The proposed modification would provide that, if BT proposes to amend a package, substitute a package or offer a would provide that, it or proposes to affect a package, substitute a package or other a new package of charges or there will be a material increase in the revenue forgone under the Residential Low User Scheme which would contribute to the calculation of BT's Discount Yield (see paragraph below), then BT would have to inform the Director, in writing, of any adjustment that should be made to its annual forecast of the Discount Yield as a result of those changes.

The modification would ensure that any linked prices for exchange line and call charges and packages involving the pre-payment of a fee would be included in the calculation of the Discount Yield (whether involving an increase or decrease in revenue forgone). An increase (above RPI) in the current level of revenue forgone by BT under the Residential Low User Scheme would contribute to BT's Discount Yield (see modification to Condition 24D below).

Further Provisions Relating to General Prices(Condition 24F)

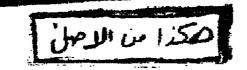
For the purposes of Condition 24F only, the definition of a General Price would be modified to encompass rental and call charges covered in packages taken into account under Condition 24C in the calculation of the Discount Yield. Proposed new charges may therefore not fall below cost without the Director's consent. (Certain reductions in call charges could, as currently, lead to reductions in interconnection charges paid to BT by other operators under Condition (3.)

The proposed modifications delete certain redundant references to the Contribution. Residential Low User Scheme (Condition 24D)

The proposed modification would allow any increase (above RPI) in the level of revenue forgone by BT as a result of the operation of the Scheme (as measured from 1 August 1995) to be brought into account for the purposes of calculating the Discount Yield. No such increase would count towards the price cap requirements

Residential Low User Scheme Guidelines under Condition 24D

The proposed modifications would provide protection for all eligible customers by requiring BT to ensure that their bills (for the same call usage) would not increase by more than RPI in any one year.



Rome still stamped by Mussolini

he main post office is an unmistakable landmark in every Hallan city. Mussolini made sure that the post and telecommunications (PTT) operations had a grandiose central site. If there was none, old buildings were pulled down to make way for the indelible stamp of his neo-brutalist architecture.

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These buildings are increasingly an anachronism. Telephones require no operators; telegrams (once essential) are no longer sent; and letter writing, never an Italian forte, is on the wane.

Meanwhile, the package and parcels siding, which led to business has been eroded by private operators, especially on routes between cities like Milan and Rome. Concessions have been awarded to private contractors to handle items like wedding telegrams. Even at Christmas, with seasonal pres-

sure on the service, employees seem more numerous than the public. The public seem mostly immigrant workers, not Ital-

Italians are not greatly smitten by the idea of sending Christmas cards, as shown by the difficulty of finding a shop in Rome that sells them. But the decline of the post office is not only a question of changing social habits. It is as much to do with the low esteem in which Italians hold their postal service. For years it has been the most inefficient of all the public services.

DATELINE

writes

appearing with ancient post-marks. Change is long There was even the case of a sack of overdue for Italy's letters turning up in postal service, a derelict railway an uproar when they Robert Graham were delivered. "We

own tale of letters

knew the letters

were old but we are not allowed by law to destroy them. We same city. got stick when we thought we were per-forming a courtesy by delivering them," a post ministry spokesman said last week.

The blame cannot be placed on foreign services. Often the worst delays occur

locally. That is especially the case between the north and the south. No one marvels if a letter between the outskirts of Turin and Sicily takes three weeks. In defence, the ministry says: "We often

get blamed for allow mail, when people forget we are dependent upon the trains and aeroplanes which in Haly have been subjected to a lot of transport strikes."

Since September there have been at least 20 transport stoppages between air and rail.

The ministry has a target of delivering 85 per cent of ordinary mail anywhere in Italy within 72 hours, with the target falling to 48 hours within the

In Europe, the delivery time is now meant to be within four days of consignment. Officially, one-third of mail meets this target. But many who depend upon intra-European mail find themselves in the unlucky two-thirds.

Outsiders may be surprised to learn there has been little pressure to improve the service. The usual Italian reaction when something (state-run) works hadly is not to fight for change, but to create alternate systems that by-pass the existing ones. In the case of the post, this has created a vicious circle.

As a member of Censis, the social and economic research institute, put it: "The service is poorly used because the service is poor." People resort to the state post when time is no object.

Until three years ago, the ministry of posts seemed indifferent to the demands of the public. Successive ministers and their acolytes were more concerned with patronage. Rules and employment struc-tures were geared to suit employees rather than the public. The degree to which the public was dis-

regarded has only started to come to light with a scandal surrounding the employment of fake invalids and the award of fraudulent invalid pensions. In September Rome magistrates began investigating a sample of 2,000 persons in their 30s awarded jobs in the PTT by being classified as invalids (therefore subject to special priorities for obtaining work).

They discovered some surprising facts. In the first six months of 1992 - the final days before italy's post-war political estab-lishment was discredited by corruption scandals - the then Sicilian-born posts minister took on 1,048 "invalids".

PEOPLE



The sole criterion appeared to be geographical. More than 38 per cent of jobs were awarded in Sicily, 24 per cent in Camapana (around Naples), and the remainder in other areas of the south: only 12 per cent were awarded in Rome and the

surrounding Lazio region. This was patronage politics at its most generous. More detective work revealed many an invalid to be completely fit. Most had done military service, and one was

IN THE NEWS

Al Dunlap: another

plenty more to go

Kimberly-Clark completed its

Tuesday, it set a dangerous man on

looking for the next company to get

In 20 months with Scott, Dunlap

fired 70 per cent of its head office

staff and 20 per cent of the shop

floor. He also took on a company

with a market value of \$2.9bn and

sold it for close to \$10bn. Now, he

He expects to be back very early

in the New Year. His target will

probably in consumer goods. He

he says. When assets have legs,

they can walk across the street.

conglomerate, is the one that got

away. Its impending \$5.4hn

network, takes it out of his

trying to run CBS instead?

takeover of CBS, the US TV

Westinghouse, the struggling

preferred areas. "God forgive them," he says. "If you cannot run Westinghouse, what is the point of

Dunlap says there are plenty of

other companies out there waving for help. He will only be brought in

as a last resort. But he says he has

makes his choice, he adds, buy all

the shares you can: "Mortgage the

been talking to a lot of people,

sizing up situations. When he

very likely be a US manufacturer,

likes companies with hard assets,

says, he is unemployed for

the loose, writes Tony Jackson in

New York. Al Dunlap, ex-hatchet man for Sir James Goldsmith and

takeover of Scott Paper last

now ex-chairman of Scott. is

his teeth into.

When the US tissue maker

conquest over,

discovered to be a champion gymnast run-ning two physical training centres. Looking further into family back-grounds, the magistrates have discovered that, by coincidence, the parents are often trades unionists attached to the PTT.

Yet amidst all this poor publicity, the ministry of posts is attempting to face the modern world of competition and develop a user-friendly service. Since January 1991. the postal service has begun to transform itself into a public company - a process due to be completed next year. Performance targets have been introduced and the axe on spending has been wielded silently but to considerable effect.

Since 1993, losses have been cut from a staggering L4,500bn (£1.76bn) to L338bn. Traditionally, more than 80 per cent of spending has been on personnel, so savings have come from freezing new employment. The number employed has fallen during the past three years by 50,000 to 180,000. The ministry prides itself on having achieved this without industrial unrest, but the workforce remains hugely cumbersome, concentrated in the south where there is less business and the service least efficient.

If real cuts are made and postal services tailored to the electronic age as promised, grandiose post office buildings in prime sites will become utterly obsolete.

FT GUIDE TO THE FED'S OPEN MARKET COMMITTEE

I understand the FOMC meets tomorrow. What is it? _ It is a committee of governors and regional presidents of the Federal Reserve Board - the US central bank - which sets the level of short-term interest rates. As such, it is arguably the most powerful group of economic policymakers in the US, perhaps in the world.

There are 12 voting members: the seven governors of the Fed's board (one seat is currently vacant) and five of the presidents of its 12 regional banks. The regional presidents serve on a rotating basis except for the president of the New York Fed, who is a permanent member. The committee is chaired by the Fed chairman, at present Alan Greenspan By tradition, the vice-chairman is the president of the New York Fed, at present William McDonough.

What interest rate does the FOMC control?

It sets the level of the federal funds rate, which is the rate at which banks make short-term loans to each other. The fed funds rate serves as a benchmark for short-term borrowing costs generally. Banks' prime lending rates and the cost of consumer loans, for example, move up and down with the fed funds rate.

The FOMC does not directly control long-term interest rates, such as yields on government securities, which often have a more important impact on economic activity than short rates. However, movements in the fed funds rate do affect long-term rates by influencing the bond market's expectations of future growth and inflation.

What about the discount rate?

The discount rate - the rate at which the Fed makes short-term loans to commercial banks - is set by the Fed's seven governors in response to requests from the boards of the regional banks. Since little borrowing now occurs at the "discount window", the discount rate has more symbolic than practical significance. It is adjusted periodically in line with movements in the fed funds rate, which is the main policy variable.

How did the FOMC get its name?

The committee controls interest rates by engaging in "open market" operations - that is, purchases or sales of government securities. If the FOMC wants to lower interest rates it increases its purchases of securities, in the process pumping liquidity into the market. Open market operations are performed by the New York Fed which receives instructions from the FOMC after each meeting.

What criteria does the FOMC use in setting monetary policy?

There are two points to bear in mind. First, the FOMC is generally concerned about domestic economic prospects. Strength of the dollar is a source of concern, but currency considerations do not loom nearly as large as in Europe. Second, unlike many other central banks, the Fed is legally required to promote "maximum employment" as well as "stable prices". Recent Fed chairmen have tended to put greater priority on stable prices, arguing that low inflation is a precondition for sustained economic growth and high employment. But the FOMG is rarely slow to

react to signs of serious weakness in the real economy

How are decisions reached?

now are decisions reached? By the standards of many central banks, in a surprisingly rational fashion. The FOMC gathers every six weeks or so. Meetings typically begin with a review of open market and foreign exchange operations since the last meeting. Staff economists then present their latest economic projections. That is followed by a general discussion of the economic outlook. Staff then set out several monetary policy options which are reviewed in a round-table discussion. Finally, a monetary "directive" (instructions which tell the New York Fed whether to tighten or loosen policy, or leave it unchanged) is formulated and voted upon. Individual members sometimes dissent from the committee's decision, but the minutes generally show a high degree of consensus.

Is the FOMC really independent?

The Fed likes to say it is independent within, rather than of, government. The FOMC does not receive formal instructions from any other body or person. However, if the US president and treasury secretary persistently call for monetary policy adjustments, this may inffuence the FOMC's thinking. The Fed chairman (and occasionally other members) is frequently called to justify his actions before congressional

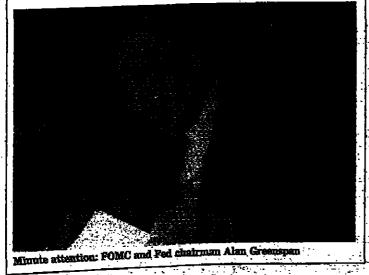
Political influence is exerted mainly through the nominating process. The Ped's board is appointed by the president and confirmed by the senate. Governors serve 14-year terms. The Fed chairman and vice-chairman are named for four-year terms.

man are named for four-year teams.

However, regional presidents are appointed by private sector directors of the regional Fed banks, subject to final approval by the Fed's board in Washington. Congress has complained that regional presidents are "unaccountable." But in practice their private-sector orientation and emphasis on controlling inflation has led to sounder monetary policies than would be likely if all FOMC members were political appointees.

Yes, by the standards of most other arms of US government. The minutes of FOMC discussions are not released until six weeks after the meeting in question, and they do not reveal who said what. However, the FOMC is trying to pacify its critics. If it decides to move interest rates, it now issues a short statement immediately after a meeting. Full transcripts of FOMC meetings are also now available - with a five year

Michael Prowse



Kodak develops a brighter outlook

The giant has left the dark room, write Andrew Gowers and Tony Jackson

uring his five years running Motorola, the US electronics group, George Fisher achieved a formidable reputation as a manager and strategist. So when he quit late in 1993 to take on the chairmanship of photo giant East-man Kodak, Wall Street's delight was mixed with puzzlement.

Why would a man who had won such plaudits and profits at a company at the forefront of America's digital revolution trade them for a business that, despite its proud history and powerful brand name, could best be described as demoralised and floundering?

Two years on, Fisher, a trim, thoughtful man with a straightforward manner, offers an answer that is starting to win over the doubters. The traditional photographic business, he says, is set for significant growth around the world for as long as he can foresee

What is more, the industry is on the cusp of a technological transfor-mation that will offer huge rewards to those companies in at the start.
"When I came here," he says, "the mental set was that this is a slowgrowth industry, and that the way the company is that there are tremendons growth opportunities; we have to go develop them . ." Fisher's approach has indeed

been a departure. When he took over, Kodak was struggling after waves of cuts to maintain profits at the level of a decade before. Its traditional lines of silver halide film and photographic paper were stag-nating, and seemed doomed to erosion by new technology which Kodak did not fully understand.

To the dismay of some in the investment community, Fisher - an engineering graduate who spent 10 years at Bell Telephone Laboratories before moving to Motorola concluded early on that the answer was not more cuts.

Instead, he set about rapidly disposing of the pharmaceutical and consumer health businesses Kodak had bought during an ill-conceived diversification spree, and went on a trade and marketing offensive in Kodak's traditional product lines. He brought a new single mindedness to the company's efforts to exploit digital technologies. Digital imaging, he insisted, was not a threat to the traditional business of film and paper but an opportunity to expand it - for example, by using computer technology to edit, communicate and reproduce photos.

"Not too many years ago," Fisher says, "the company feared that digital was somehow going to wipe out film. We don't see that happening.



you keep going is you keep cutting. George Fisher: Kodak's chairman says there are "great opportunities"

The new mind set I think we've succeeded in establishing within Hence digital is now being tions are: Kodak's costs, and prob-

embraced more as a way to grow not just the total enterprise but the film business as well."

Results are already perceptible. Sales of digital equipment are up between 50 and 100 per cent this year, depending on product line (well ahead of expectations, but from a low base), and are set to grow at least as strongly next.

And Kodak is positioning itself for the information highway with alliances with companies such as Hewlett Packard, Apple and Microsoft. The idea is to establish its colour imaging and picture storage technologies as industry standards - for example, for transmission of

pictures via the Internet. Fisher's experience at Motorola which was losing \$50m-\$100m a year in wireless communications 10 years ago but went on to become an profit record - is central.

"I would say we are in imaging where Motorola was in wireless communications about 10 years ago," he says, pointing to the technology, the rapid growth in comput-ing power, and the diminishing cost of memory and communications. If the future looks promising, however, that does not mean the

ent is anything but difficult. Digital imaging is of marginal importance to the current business and will not make money until 1997

Fisher's immediate preoccupa-

lems selling in Japan. "I think our costs are way too high still. We have a lot of room to improve quality and our costs of production. Our overhead costs are also too high. In every one of our businesses I have areas where we're dissatisfied."

Then there is Japan, where Kodak's arch-rival Fuji commands about 70 per cent of the domestic market, thanks, the US company charges, to government-sanctioned anti-competitive practices which enable it to make large profits at home and buy market share over-

In his previous job, Fisher was vocal - and to an extent, successful in his demands that the US administration press Tokyo to open its market. Now, calling in aid truckloads of documents setting out his case, he is trying to repeat the

So far there is little sign that Washington has the stomach for a fight, but Fisher is undaunted: "I've been involved in these issues for 20 years with Japan, and I've never had a single issue that's had such unanimous support [in Washing-

And what of Fisher's own future? If he turns Kodak round during his current five-year contract, is there another challenge he might relish? "I don't have any plan beyond staying here until I retire. Five years is the minimum, and more likely I will stay here many years beyond that."

It is the kind of sales pitch you could only get in the US. The bet-ting is that Wall Street will love it. Four-horse race at Fiat

farm. Sell your neighbour's house."

Last week's management changes company, have kept tongues wagging in Turin, Halg Simonian writes. Yet in spite of apparently exhaustive discussion, the impending elevation of Cesare Romiti, group managing director, to the chairman's post being vacated by Gianni Agnelli, and the former's replacement by Paolo Cantarella, who currently heads

questions unanswered.
The first is who will succeed. Cantarella at Fiat Auto. There are three strong candidates, with a dark horse in the wings. Both Alessandro Barberls, currently Cantarella's number two at Flat Auto, and Giovanni Battista Razelli, the head of its international operations, are obvious successors. The latest betting puts Razelli just ahead.

the core cars division, has left two

Also strongly placed is Giancarlo Boschetti, head of Fiat's Iveco commercial vehicles division. Recently, however, Roberto Testore, who runs the Comau robotics subsidiary, has started making his way up the field. Coman is where Cantarella cut his

Christmas. With a \$100m fee in his teeth as a manager before moving to the cars side, creating a link pocket, he will doubtless rub along. between the two men. Insiders add that Cantarella's passion for cars and close

identification with Flat's product-led recovery may mean he will retain a strong interest in the cars division. That could favour the chances of a relative outsider, like Testore, who is only in his early 40s, over more experienced heads.

The second enigma concerns Giorgio Garuzzo, 57, Fiat group's well-regarded chief operating officer, who has emerged as the big loser from the reshufile.

As deputy to Romiti, he would have been the obvious successor as group managing director. Now that job has gone to Cantarella, Garuzzo looks set to stay where he is. Talk of past difficulties with Cantarella puts a question mark over how long he will wish to do so.

WEIGHT

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FILM/VIDEO

M Do you spot something odd in the title of the Hollywood children's fantasy The Indian In The Cup-board? Exactly. Americans usually call cupboards closets. But maybe The Indian In The Closet sounded too much like an inter-racial gay movie and there is definitely none of that in this tale of boy meets toy. Nine-year-old Omri is given an Indian doll for his birthday and locks it in his bedroom cupboard, only for the thing to come alive at the drop of two eyelids. We are off into fresh dimensions. The film is deft and charming, but its box-office thunder has been stolen in the US by Disney's computer-animation feature Toy Story, in which a nurs-

■ Elsewhere you can have Jim Carrey in Ace Ventura 2, in which cinema's first \$20m-a-movie comedian romps around Africa being rubber-faced and politically incorrect. Or you can have Iran's The White Balloon, which slayed Cannes this year with its tale of a little girl, a lost banknote and a balloonseller. Sweet; but festival audiences may have Jim Carrey, as a campy cha- Nigel Andrews



Non-European art success of 1995: The White Balloon

have gone over the top in elevating meleon-like Riddler. it to non-European art hit of 1985.

■ The TV/VCR system has supplanted the fireplace, so start piling up those freshly chopped movies now. Batman Forever should be chopped enough for anyone: a widescreen noise-and-light riot ing-room dimensions. But we do

■ Better still is Fred Schenisi's Six Degrees Of Separation, where a gifted cast camps up psychological chamber drama. John Guare's Broadway play becomes a broadbrush comedy about deception, and social manners, played to the limit

MANAGEMENT

ir Richard Greenbury, chairman of Marks & Spencer, sits in his office above Baker Street and contemplates one of life's more irritating

At the start of this year, when the Confederation of British Industry asked him to head an investigation into the controversial topic of directors' pay, Sir Richard and his fellow study group members were immediately branded by sections of the press as "fat cats," incapable of taking a firm stand on the size of the executive cream bowl.

As the year ends, the complaint is the very opposite: that the report he produced last July was so tough that a campaign is afoot by disgruntled executives to water down its provisions. Should not Sir Richard be doing more to prevent dilution?

Sir Richard, whose loathing for the media runs as deep as his passionate sup-port for Manchester United football club, says in an interview that this constant, unreasonable "slagging off" by the press is why "I'll never do anything again, not in

And he insists he is not acquiescing in dilution. Although the study group dis-banded when its report was published, Sir Richard has continued discussing implementation, ever since emerging from hospital after a hip operation.

Still, the "watering down" accusations raise an important question: five months on from publication, what impact is the Greenbury committee report having on corporate Britain?

Enormous seems to be the answer. Companies may not like Greenbury's call for much greater disclosure of boardroom pay, its clearer linkage to performance, and a strengthened role for a board remuneration committee, composed of non-executives. But they are spending large amounts on management and pay consultants to see how to comply.

Sir Richard, who also sits on the boards of Lloyds Bank and drugs group Zeneca, is in no doubt: "Every business Γm involved with is currently spending an enormous amount of time collecting information and trying to review its entire remuneration

"And if I talk to other businessmen. I know that every one of them, their remuneration committees and their boards, are

Corporate governance in Britain is coming under ever closer scrutiny. Here we talk to the man who investigated boardroom pay and (below) present one view of the broader issues

Greenbury: the chairman speaks

currently looking at a whole series of proposals... It's all taking place now."

The committee's "suggestions" for reform are being made compulsory by the stock exchange, which is in consultation about changes to its rule book. It is this process which is at the centre of any efforts to change Greenbury's recommen-

Last month Geoff Lindey, chairman of the National Association of Pension Funds' investment committee and a leading Greenbury committee member. warned that "powerful voices" were trying to block implementation of key aspects of

Areas of contention include Greenbury's recommendation that shareholders approve all long-term incentive schemes defined as those committing shareholders' funds for more than a year ahead. Draft stock exchange rules define long-term as over three years.

Companies are also uneasy about having to disclose the full cost of executives' pen-sion benefits, which they fear could provoke a fresh storm of "fat cat" allegations. The precise formula for pension disclosure - in itself a complex and potentially controversial subject - is still being mulled over by the actuarial profession.

Sir Richard seems relatively sanguine about all this. He doubts that companies will try to get around the obligation for shareholder approval of bonuses by playing tricks with the timing – for examshould know every penny I earn."

ple, by running a scheme that lasts just under three years.

Companies, he says, should not underestimate the power of institutional shareholders, and their willingness to express their unhappiness. "It's the institutional shareholders that have introduced ... much tougher criteria on executive share option schemes.

As for pensions, he insists no attempt is being made to water down the committee's proposals. The debate is about the proper way to show the sums in a company's

He says an actuarial experiment, using different methods to calculate M&S directors' pensions entitlements, had produced some bizarre results. "I was horrified to find that two of my directors were minus," (ie benefit was negative).

nother problem is that a report and accounts normally declares that a company is an ongoing concern. But some argue that it cannot logically be so if all its directors are to retire at the end of the year, which is the assumption behind one pensions calculation method.

Sir Richard, however, makes plain that he is sympathetic to some objections raised against his report. "I think the level of personal disclosure [of remuneration] is offensive and I don't like it. I don't think

He reluctantly accepted full disclosure because this was the best way of "arming shareholders," providing them with the information they needed.

He agrees with the widely-aired complaint that greater details of pay will "produce security risks for any well-paid director, and if not the director himself then the family

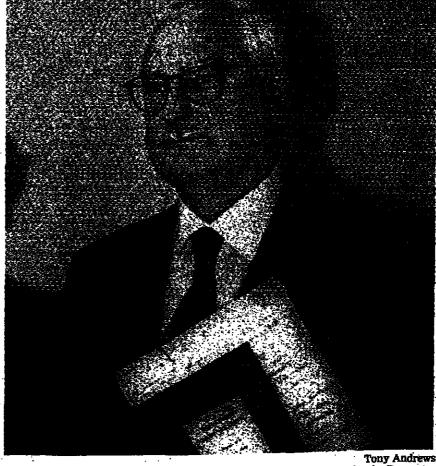
He says he personally wanted to see highly-paid City lawyers and bankers, as well as newspaper editors, included in the report, but he was told the priority was to

look at corporate Britain. Why shouldn't lawyers in the City charging hundreds of pounds an hour ... have to declare their sala-ries? ... If the editor of the News of the World wants to know what I'm earning, then I would like to know what he's earning.

How long will it take to measure the impact of the report? New stock exchange rules on greater pay disclosure - in the form of a report to shareholders by the remuneration committee - will come into effect for company accounts covering the year to, or after, December 31.

Companies reporting on or after December 31 next year will have to state whether they have complied with Greenbury's best practice provisions relating to remuneration committees. However, the timetable for implementa-

tion of the new pension disclosure rules has yet to be fixed. Says Sir Richard: "I



Sir Richard Greenbury: "I think the level of personal disclosure is offensive

come through in some report and accounts at the end of '96, and certainly by '97. This is just a technical argument as to what's the best way to tell it."

He believes that many companies will implement the new rules ahead of the required timetable, but adds that the real impact of the Greenbury report will not become clear until the end of 1997, when companies have had a chance to rethink and change their initial approach.

He thinks that responsibility for follow-

ing up the report, in two to three years'

don't see why pension disclosure shouldn't the day and, he hopes, the "Cadbury mark II" committee which was established recently to cast a fresh eye over Britain's progress in corporate governance. "So why can't we all wait until then? I

don't think that's an unreasonable request." "If you can show me at the end of 1997 that nobody's listened, or nobody's done

anything, well fine – give us a blasting. But for God's sake be patient." Martin Dickson and

William Lewis

adbury mark I, the committee on corporate governance chaired by Sir Adrian Cadbury, is over and we are about to be subjected to mark IL Some say it will not be a mark II but, in reality, that is what it will be.

This must be the moment for the corporate sector, and particularly that part of it which we are continually told must be the main engine of growth in the future - small- and medium-sized companies - to say what has happened so far. It could also suggest a list of priorities for the next phase of improving corporate governance in the UK.

It is generally accepted that Cadbury mark I had at least three objectives. First, to improve governance and thus limit scope for a repetition of the BCCL, Polly Peck and Maxwell affairs. Second. to preserve the unitary board in the UK, to avoid the two-tier structure used in Germany. Third, to involve the owners of UK companies, the shareholders, more in the governance of their companies.

Cadbury mark I came up with four ways of moving towards achievement of these objectives:

· A division of power at the top of a company, usually by having a non-executive chairman alongside a CEO. The appointment of strong and independent non-executive directors to

• The limitation of directors' contracts and full disclosure of their compensation packages via powerful remuneration committees, consisting only of Neds. The empowerment of audit committees, consisting largely of Neds. Cadbury mark I has been quite successful, but there are caveats. Too many

shareholders, principally the small ones,

still find it virtually impossible to have any influence on a board which they fee! is not performing properly.

There is a widespread suspicion that an unholy alliance exists between those who have been put in charge of our companies, the directors, and those who have the job of managing our savings – the institutional fund managers (often

described inaccurately as the 'owners' of those same companies). They believe this alliance results in little or no real "ownership" activity on the part of the institutions. Some claim these institutions sell rather than interfere, and that what interference does occur takes the form of a private chat with the chairman or CEO rather than something in which the other owners become involved as well.

Further, there is a feeling that Cadbury mark I is not going to help owners and potential owners decide whether or not the executive management of a company is improving. Finally, there is concern that Cadbury seems to assume that governance is all about checking, controlling, and monitoring, rather than board: future strategy.

So does what we have been told so far about mark II give grounds for optimism? The remit is to renew the Cadbury code as it stands now, to renew the role of directors, executive and non-executive, to pursue any relevant matters arising from the Greenbury report, and to address the roles of shareholders and auditors.

Although most, if not all, of this will prove time-consuming, especially for Neds, it will be widely regarded as

another step in the right direction. But much will turn on just how Sir Ronald Hampel, chairman of ICI and the "mark II" committee, and his team tackle the role of shareholders, ie the owners, something which was not addressed at all by mark I. The lack of emphasis on the role of the owner in corporate governance is surprising, because most economic historians who have covered the industrial revolution agree on the significance of the concept of ownership

rights. Given all this, the question which

arises is: who are the owners of UK plc,

and what are they saying about the governance of property? The short answer which most people would give to the first of these questions is: the institutions. Their meteoric rise since the 1950s to the point where they "own" between 60 per cent and 70 per cent of UK plc is well known. But the rise to near-total dominance by these professional investors, and the squeezing t of the small man. I more efficient capital market. As The Economist put it not long ago, owner-capitalism has been replaced by "punter capitalism" and the share ertificate has become little more than a betting slip." If this seems an extreme

point of view, it is difficult to deny that

we have precious few institutional

investors these days who follow the

fundamental principles of a Warren Buffett, and really do invest for the long term in businesses they believe they

Cadbury: owners must speak

As for the second question: What are the new 'owners' of UK plc saying about corporate governance? the answer is: precious little". They have been forthcoming on directors' compensation packages, but they have not pontificated on Cadbury mark II, and they dislike being provoked on questions of strategy such as distributions and retentions, rates of return, investment and diversification, defences against takeover bids, returning cash to shareholders, and so on.

This reluctance to be drawn on leading strategic issues is strange, because over the years the switch of ownership from individuals to institutions and the growth of takeovers and acquisitions has resulted in the elevation of shareholders to a position of real power. But they seem eluctant to exercise that power. Can this be, many wonder, because too great a commitment to any one company reduces the fund manager's ability to walk away

o far the critique amounts to this: Cadbury, in its attempt to improve corporate governance in the UK, does not seem to be involving the owners (the institutions) sufficiently, and they in turn seem quite happy with this situation. But there is more to this question than just disquiet over a

particular movement in one country. There have been signs for some time that perhaps all is not well with capitalism's principal vehicle for the execution of business: the company, and its owners. For example, the leveraged buy-out wave of the 1980s can be portrayed as the product of dissatisfaction with the existing form of corporate ownership, and a desire by active investors to return to a more direct and entrepreneurial form of

It has been widely suggested that the UK should emulate the so-called superior systems of Germany and Japan. At the same time the UK's solution to the problem - to enhance the power and prestige of the Neds - has not been universally accepted. Others argue that boards should be encouraged to think and act in the interests of all stakeholders in a company (the "inclusive approach"), rather than primarily of the shareholders. Most practical people feel that

capitalism must be run, within the limits imposed by the law, by capitalists. Just because the owners of companies are not wish, that is insufficient reason for discarding or ignoring them. So, if the new form of corporate

governance in the UK is to work, we need to involve all the owners - in effect, the institutions - more. Their reluctance to exercise their full power and become involved must, somehow, be overcom

Consolidated Gold Fields, has suggested one way - that the 60 leading investment institutions in the UK become "relationship investors" in the top 100 companies by appointing "shareholder directors" (who would be monitors of but would also enter into 5- to 7-year performance contracts with the executive

his seems to be too revolutionary and wide-sweeping a change to the existing state of affairs to be acceptable to either owners or management, but it does highlight the significant weakness in the system namely the lack of any real contact between Neds and the institutions. There are several ways to improve the situation. Companies could be less short term in the way they frame directors' compensation packages, and in the way in which they sometimes dump investment managers of their own pension funds.

The reliance on the takeover as the ultimate constraint on management could be reduced by making the procedure more difficult. Also, the system which says that management can talk to institutional managers and analysis only about information which is already in the public domain could be relaxed. And Neds need to be involved as well as executives.

22K TT 0 problem of the involvement of the owners of companies in corporate governance? If it does not, the end result - our new system of corporate governance – will be sadly distorted.

Alan Clements

Allen Sykes, former managing director of The author is chairman of David S. Smith

A performance that can tip the balance

formance-related pay. It illustrates some of the problems of the meritocratic, equitable concept of reward related to output. Studies in the US have shown that the number and size of tips is a function of all sorts of things associated with the waiter. Each of the following factors has been demonstrated to affect tipping: whether the waiter/waitress touches the customer, what they wear: whether she has flowers in her hair; is physically attractive: introduces him/herself by name; squats at equal eye-height during the initial visit to the table; and, of

course, visits the table more often. But tips also vary according to characteristics of the customer. Tips are larger when customers are

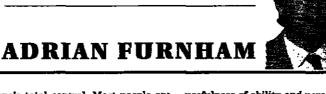
patronise the restaurant regularly Other factors to do with neither customer nor waiter make a difference, such as the weather.

It seems reasonable that good food and prompt service are associated with higher tips, even though the quality, preparation and speed of food delivery is not within the control of the waiter. One does not, it seems, act fairly and reward the server on the basis of service.

Tipping also depends upon factors beyond the waiter's control and almost at random. The mood of the cook, the price of fresh produce on the day and the avarice of the restaurant shareholders may affect the waiter's tip as much as his/her behaviour and attitude

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This illustrates clearly one problem with performance-related pay. male, paying by credit card and Performance is not always under



one's total control. Most people are inter-dependent with others whose performance also affects one's own. And geo-political economic factors often beyond one's ken, and certainly beyond one's control, can and do affect performance.

Despite their widespread use, many managers are sceptical about the

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usefulness of ability and personality tests in selection. Supply (of psychometric consultants) and demand (by human resource professionals try-

selection tests. Some believe that the best predictor of the future is the past. Life-history or biography is all you need. But what in our past is the best predictor of our potential?

ing to look sophisticated) has seen

an impressive growth in the use of

One study looked at simple biographical predictors of middle-aged, abroad routinely, but remains an

The list of factors thought to be predictive was long; which school they went to; position in the family, age of first mortgage; sport preferences, etc. In fact, this study found that for these middle-aged Britons the best predictor of managerial success was at what age they first travelled abroad: the younger the better. Why? When travel was more expensive and more difficult and when Europeans were somewhat more xenophobic, it tended to be the more adventurous, curious and well-off parents who took their children abroad. And it is possibly these characteristics associated with one's parents which lead adults later in life to be more suc-

cessful. The question does not work

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interesting marker for those interested in selection.

Some years ago, a study tried to identify the single factor that most accurately predicted how long patients were kept in mental hospitals. The single best predictor turned out to be the thickness of the patient's file. The bigger the file, containing all sorts of official reports and assorted bric-a-brac, the longer the patient remained locked

Is the opposite true of the best predictor of management success? I spoke to a top civil servant personnel officer, who said his section had attempted, using retrospective data,

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to find the best predictors of high

Some thought it was an Oxbridge conspiracy with a self-fulfilling prophecy. Others thought it might have something to do with the father's occupation or the school attended. Occasionally, an odd suggestion was thrown in, such as whether the person was religious, the age they first acquired a home computer, even the number of first names they had.

The best predictor turned out to be the thinness of the personnel file. The fewer the assorted bits of paper in the file, the better the individual was rated by the organisa-

So pause before going to personnel to sort out your problem - it may thicken your file and reduce your chances of success.

ASSESSING OUR IMPACT ACHIEVEMENTS AT HOME AND -**ABROAD**

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S

It also provides an opportunity to ex pact Nottingham has had nationally, internationally and, just around the corner, in our own local commi

REGIONALLY, the University's impact is diverse; it injected some £200 million into the local tomy in 1994-95, is one of the largest employer in Nottingham, and the staff of its Medical Faculty provide much of the consultant medical care in the City. Its new £5 million Arts Centre attracted greatly increased rudiences for visual and performing arts and more than 12,000 people participated in its Adult Education courses.

NATIONALLY, research awards rose by a remarkable 22% to a new high of £40 million Independent statistics showed Nortingham to be oat sought-after UK university in terms of student applications - 17 - for each available place. In the teaching sment exercise Nottingham returned one of the highest proportions of departments earning top

INTERNATIONALLY, Nottingham made great progress towards bringing to fruition exciting development schemes in Thailand and Malayria, in co-operation with home governments and

In the fields of research and teaching, in econom scinl and cultural life, we believe our staff and students made great progress in 1994.95

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If you would like to read about our activities in more detail, ask for a copy of the Annual Report. It is available from the

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Blowing out the old year

select their future business school, they study the length of the course and the school's international reputation. Much lower down the list of priorities is the quality of the food, how comfortable the beds are and the price of the beer in the bar.

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William Leni

In conference and theme

Even less consideration is given to the calibre of the Christmas festivities. But if team spirit and student bonding are the watchwords of a good business course, then the organisa-tion of the Christmas party could well prove an indicator of course spirit.

That being the case, here is an anecdotal run-down of some of the most ambitious, extensive and generally enjoyable business school Christmas celebrations.

As far as ambitious goes, the winners are undoubtedly the London Business School and Insead in Fontai-nebleau. There the students on the MBA courses organise their own thea-

At the London school the faculty is traditionally lampooned: academics "go along at their peril", according to a spokesperson. Walking straight into the lion's jaw this year was George Bain, principal of LBS, who was reportedly seen laughing during the course of the show.

By popular acclaim the star of the night was faculty member Andrew Sentance, who sang the Beatles' hit song "Yesterday" but with a rewritten

text. His version bemoaned the difficulties of teaching MBA students. The evening provided relief for the students who completed their final

exam earlier that day, says Swiss first-year MBA student Marc Fischli, who was one of the main organisers of the event. And it gave students a chance to

get to know each other in a different environment. "We could talk for once without being stressed." A spokesperson for insead describes the Fontainebleau revue, combined

with other seasonal revelries, as a

"mass bonding session". Students

ensure that they build up the per-sonal networks they will need when they graduate from the school - one of the main reasons students choose international schools such as Insead. Numerous parties are held in the large houses around Fontainebleau which the students occupy during term time. "Some houses become

spokesperson darkly. Other business schools, such as Manchester, in the UK, or the Belgian school at Leuven, a town famous for its traditional Christmas market, enjoy a more conventional Christmas

notorious for their parties," adds the

party. Even those for whom Christ-mas celebrations are not the convention - in Scotland, for example, where students might more naturally expect to celebrate the New Year with a traditional Hogmanay party – the festive spirit has been in evidence this year. At the Edinburgh University Management School students organised a party in a local hotel. With the last exam of the term already behind them, the idea was to bring together all the MRA students for one final gathering in 1995 - more than half the

students return to their homes over-

While European students roll out the battel, their American counterparts are much more conservative. In the US, examinations are taken close to Christmas, and the massive size of classes can also inhibit festivities. At Harvard the class size of 600 means that students have been gathering in small groups of 80 or 90 to celebrate

the holiday.

And at the Graduate School of Business in Stanford, California, the story is a similar one, although most of the 700 students gathered in the 70°F warmth just over a week ago for the traditional carol concert at the school. For many students, the end of the Christmas terms means the end of the course. With final exams over celebrations are usually the order of the day.

Or are they?
At IMD, the International Institute for Management Development in Lausanne, Switzerland, which specialises in short executive courses, the 80 or so MBA students finished their courses early in December and went home without celebrating Christmas

Not so when the first Chicago executive MBA course in Barcelona concluded earlier this month. Students from that course went on holiday on Spain's Costa Brava. The hotel opened specially for 50 students. Andrew Milward, a Barcelona graduate and con-sultant from the Isle of Man, recalls happily: "It was three days of drink-

BUSINESS EDUCATION

NEWS FROM

Directory comes to the executive rescue

For those confused by the multitude of executive courses, a book which offers profiles of more than 100 course providers, plus a full index of courses, could be the The directory, published by

Kogan Page, enables readers to look up all the marketing courses in Madrid or all the design courses in Chicago. The consulting editor of International Executive Development Programmes is Philip Sadler, former principal of Ashridge Management College, Herts, UK. He has commissioned a series of articles to

complement the data. Kogan Page: UK, (0)171 883

Stanford wisdom for a British audience

A series of executive development videos produced by Stanford University is now available in Britain in the UK's Pal television

format. The 10 titles, which sell for £95 each, are distributed by Taylor Made Films (TMF) and include topics such as customer-focused companies

and managing the workforce TMF: UK, (0)1264 335577

Community hat for commercial courses

Managers in companies which want to get more involved in the community will soon be able to go on a three-day course at Ashridge Management College, Heris. The first course in Managing Corporate Community Involvement will cover topies such as building networks and persuading others to participate. Ashridge: UK, (0)1442 S41173

President heralds the coming of age

The Brussels-based organisation which brings together management researchers from all over Europe, the European Institute for Advanced Studies in Management (Eiasm), has appointed a new President of the Board.

He is Anthony Hopwood professor at the University of Oxford's School of Management Studies. Eiasm is celebrating its 21st anniversary next year. Eiasm: Belgium, 2 511 9116.

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tors, venture capitalists and instinsi financiers providing an insight into this nighly complex subject. The programme ticipants through the diverse issues mplementation; and financial restrictions, with sucst tree Howard Dyer, Hamleys & Ascot Holdings Ple and Dr Stuart Statter, LBS. ct: Julie Hough, Touche Ross & Co. Tel: 0171 303 6664 Fax: 0171 303 5927

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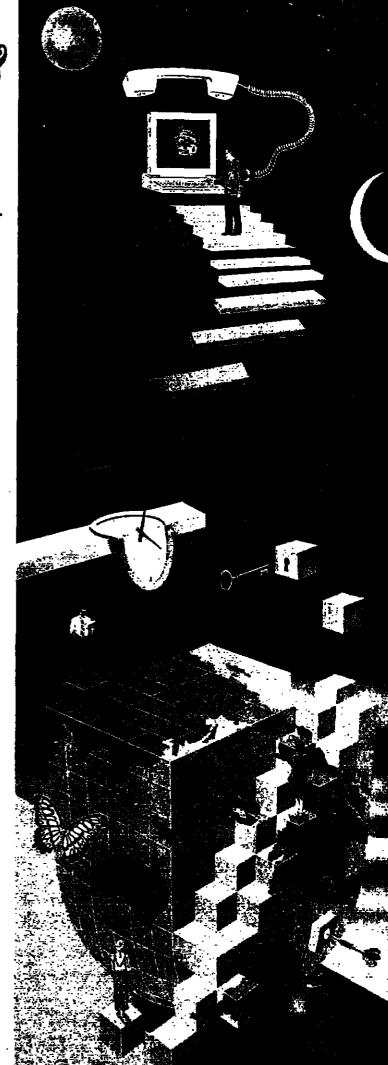
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BUSINESS TRAVEL

French teals Metro

slowly to normal vesterds as a 24 day nublic secto strike started to weaken. In Paris, nine of 13 lines on the underground Metro were at least partly functioning. Across France, at least 25 per cent of trains were operating on main lines,

SNCF state railways. London via the Channel recovering.

Business class fares The UK has the lowest business class air fares in Europe, followed by Spain and Italy,

tares, writes Michael Skapiniker.

The 11-country study showed that a 500-mile air journey

would cost a British business

class passenger Ecu0.53 (44p)

per mile. The same length of

journey would cost a Swiss

passenger Ecu0.93 per mile.

The per-mile costs of a 500-mile

journey from the other countries

studied were Spein, Ecu0.62; Italy, Ecu0.64; Ireland, Ecu0.69;

Sweden, Ecu0.75; Netherlands,

Ecu0.86; and Belgium, Ecu0.88.

Ecu0.76; France, Ecu0.79; Germany, Ecu0.81: Austria,

according to a study by



George Koumal is a men with a \$40bn dream,

investors will eye his plan with caution. Kommal. a mining consultant, wants to ade investors to sink \$40bg in a railway through some of the world's most inhospitable regions. He envisages building a turnel under the Bering Strait, plus 4,600 miles of railway linking Siberia to the lower 48 states of the US.

He has even formed a company; interhenispheric Bering Strait Tunnel and Ratroad Group (BSTRG).

"Comparisons with the Channel tunnel [between England and France] are inevitable," he says, "but [that] was a turnel of

alternative mode transport system between Europe and an offshore island, Great Britain. Our turnel is an mier continental rail link between Asia and America. It will open up vast areas of the earth's surface for the first time. It would establish access to more than 4m square infles of territory with fremendous natural

"A cargo of grain, say, transported from Kansas City to Bombay would tollow

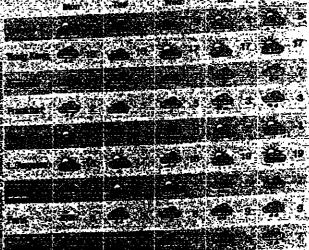
difficantly shorter nce via the Bering Strait, than by current sea than ships and land sea transfers would be

Koumal says that feasibility studies would cost about \$50m, supplied by governments. The idea of a Bering Straft railway. of a Bering Strait railway
mas first proposed in 1845.
Koumai revived it in 1986
and formed BSTFML, of
which he is chairman. The
50-mie turnel under the
Bering Strait would cost
about \$10m and use the
Diomede Islands in the
middle as a instant staging **Home Kong border** Hong Kong and Clana are. scrutinising the border that (temporarily) divides them. Officials had talks last week.

about the border, parts of which have become poorly defined and cause "ambiguities and untain situations", said Hoog Kong negotiator John Ashton He said some of the markers and down when the border, we drawn a century agit haste disappeared, while the hijo rivers that mark the soldies h

changed course. After China's 1997 taleover of the British colony, Hong Kong expected to be a Serni-Bullonomous 2008 Of

Likely weather in the leading business centres



There's no such thing as a free lunch Ryanair still issnes tickets, US-style no-frills airlines with low fares are trying their luck in Europe, says Michael Skapinker although it is investigating ways of

he cabin crew on the EasyJet flight from London's Luton airport to Glasgow wear orange sweatshirts and serve no free food or drink - although they will sell

you peanuts, beer or coffee. Ryanair's Boeing 737 from Prestwick, south-west of Glasgow, to London's Stansted airport has a set of grinning teeth and a tartan scarf painted on it. The crew sell drinks but no peanuts.

EasyJet, based in Luton, and Ryanair, headquartered in Dublin. are part of a small group of airlines attempting to bring a US aviation fashion to Europe: minimal passen-ger service in exchange for cut-price fares. EasyJet began flying last month. Ryanair has been going for 10 years, although it only switched to being a "no-frills" carrier in the early 1990s.

The airlines model themselves on US carriers Southwest Airlines and ValuJet. The European Union air market is being liberalised, with air-lines from one EU country already permitted to fly into another. In 1997 carriers from one EU country will be allowed to launch domestic

services in another.

Bob Cotterill, head of economic policy at the UK's Civil Aviation Authority, says there are airlines in several European countries attempting to undercut the fares of national carriers: Air Liberté in France, EuroBelgian in Belgium and Span-

But they face formidable obstacles. Europe's airports are more congested than those in the US and landing charges are higher. National carriers such as Air France, Iberia of Spain and Olympic Airlines of Greece have also been allowed to receive heavy subsidies

from their governments.
It is in the British Isles, Europe's most liberal air market, that cutprice carriers are making most headway. Ryanair is now well established after experiencing financial difficulties over several years and it expects EasyJet to survive too.

"We never wrote off EasyJet," says Tim Jeans, Ryanair's commercial director. "They will be around for a very long time. They've done their homework."

While both carriers offer cheap fares, they have adopted different strategies which other European entrepreneurs who are thinking of emulating them will follow with

EasyJet was founded by Stelios Haji-Ioannou, the son of a Greek Cypriot shipping tycoon, who now owns his own shipping business. His new airline offers flights from Luton to Glasgow and Edinburgh for a lowest fare of £29 one-way. In the new year EasyJet will also begin flying from Luton to Aber-

Haji-Ioannou says he has found several ways of cutting his operating costs so that he can keep fares low. Flying from Luton rather than Heathrow saves him £10 a passenger because landing charges and the cost of maintaining check-in desks are lower. EasyJet has also decided not to

sell its tickets through travel agents. This means it does not have to pay a 10 per cent commission on each ticket sold. EasyJet does not

appear on computer reservation call to be answered. "I know, it's systems, which Haji-Ioannou says would have cost him £2.50 for each

booking. ings on its own telephones. This has already caused some problems. When I telephoned EasyJet's reservations department earlier this month, I waited 51/2 minutes for my

Instead, the airline takes all book-

has doubled his reservations staff from 18 to 36. EasyJet issues no tickets. Customers turn up at the airport, present their credit cards and are given a plastic boarding pass. Once

terrible," Haji-Ioannou says. "We're their boarding passes, which are rethe victims of our own success." He

Ryanair, by contrast, strongly believes in selling through travel agents, who account for 70 per cent of its bookings. It also appears on two computer reservations systems: Ryanair is larger than EasyJet, fly-

where they want. They hand in Knock and Prestwick and from Birmingham, Manchester, Liverpool and Prestwick to Dublin.

Jeans believes EasyJet is going to find it difficult to grow substan-tially while taking all its own bookings. Employing increasing numbers of receptionists is costly and there are no economies of scale, he

airline reported 40 per cent capac-

ity – not quite enough to break

even - but said there is increasing

demand for its morning and even-

If nothing else, the introduction

busiest air route has obliged Alit-

Earlier this month the state car-

rier relaunched its Milan-Rome ser-

vice under the name "Arco-

with flights leaving every 20 min-

savings card. They may even find

alia to sharpen its act.

not get a good seat. Unlike EasyJet, Ryanair sells only drinks on board. Food creates a mess and means it takes longer to clean the aircraft. The drinks sales are important, however. Ryanair makes a pre-tax profit of only £1 a passenger, and all of that comes from on board sales.

Without the option of putting up fares, the only way for EasyJet and Ryanair to increase profits is to expand. Both are planning to fly to continental Europe. Haji-loannou says be intends to stick to routes with flying times of less than two hours. Longer than that and passengers expect some service, he

going ticketless. Like EasyJet, it

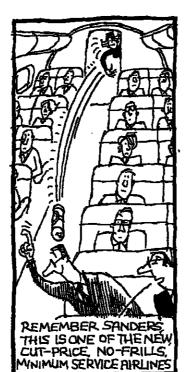
has also begun to let passengers sit where they like. The main advan-

tage of this, it says, is that it has

cut down on delays. Passengers tend to turn up at the departure gate on time if they fear they might

Independent airlines such as British Midland and Air UK are not of competition on Europe's fifth taking the incursion of the cut-price competitors lightly and have also been reducing their fares. Haji-Ioannoù says, however, that British Airways appears to have decided it baleno" (rainbow), promising cheaper fares and faster check-in, appeals to a different type of customer who demands more in-flight service.

There has been a whispering campaign against Haji-Ioannou. He presents an inviting target because he and his father face manslaughter charges in Italy. This follows the loss of the tanker Haven off Genoa in 1991 with the death of five crew members. Haji-loannou says the charges against him are base-



Cheaper Italian skies

stand out from the competition on a short flight which most engers regard as a chore. But in starting operations between Milan's Linate airport and Rome, Air One, a new Italian airline, has two big advantages: it is the first to challenge Alitalia's monopoly on its busiest route, and it is charging

Most passengers in the first week of the service seemed happy simply to be offered a cut-price alternative to the state carrier. The new airline operates six return flights daily, at promotional one-way fare of L180,000 (£74) and a weekend fare of L135,000, against Alitalia's peak fare of L225,000. Air One's prices could come down still further in the New Year, the management says.
But if Air One intends to win

passengers with its prices, it hopes to keep them with the warmth and quality of its welcome - "punctuality, courtesy and smiles" is

started using Air One. In its first week on the Milan-Rome route, the t is difficult for an airline to how Giovanni Sebastiani, the former Alitalia manager who is now chief executive of Air One, puts it.

In terms of spaciousness and comfort there is no great difference ing flights, where the price gap with Alitalia is widest. between Air One and Alitalia. There does seem to be more leg-room in Air Oue's Boeing 787s, and the airline is replacing some frontrow seats with a coat and luggage storage unit to avoid overflow from the overhead lockers on busy

Passengers are clearly impressed by the new airline's much-vannted in-flight service, which includes hot croissants and drinks at breakfast, sandwiches and spumante utes at peak hours. Frequent flyers can now travel for L180,000 one-way and L135,000 at off-peak sparkling wine at lunchtime, in contrast to some no-frills operations such as the UK's hours, if they buy an annual EasyJet. Alitalia passengers had grown

the cabin crew smile more than used to receiving just a soft drink or coffee and a biscuit from unsmiling cabin crew.

Andrew Hill less.

So far, only the pioneers have Retrouvons-nous dans L'EXPRESS NINE months ago, a British-born venture cap-italist in Silicon Valley

named Mike Moritz

brought his partners an unusual proposition. He

wanted them to invest in

a media company whose

service helps people navi-

Jackson gate their way around the World Wide Web.

Moritz's partners, who make up the firm

of Sequoia Capital in Menlo Park, Calif-

ornia, were already familiar with the Web.

It's the part of the Internet used by surf-

ers who point and click their way from

one page of text or graphics to another.

stored on computers all over the world.

What shocked the partners was the fact that Yahoo!, the company in which Moritz

wanted them to take a stake gives away

That is not to be confused with the

strategy of companies like Netscape or

Qualcomm, the maker of the Eudora

e-mail client package. These firms

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on the new-

revolution.

Here is a

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media

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of expert views

the information

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achieved a powerful position in their mar-

its service to customers for nothing.

There is one exception Yahoo! offers no service to the high proportion of Weh

users looking for pornography. Politically

correct Californians that they are, the

chief Yahoos do not offer moral reasons.

They simply point out that illegal porno-

graphic sites tend to come and go too

quickly to be maintained on the list.

After less than a year of formal exis-

tence, the Yahoo! brand is one of the

strongest on the Internet; provided it can

keep its systems running smoothly while

impovating to present information attrac-

tively, the company's customer hase -

and advertising revenue - seem likely to

grow still further. The company is already

making operating profits, and an mittal public offering is likely early next year

Months ago, I said that Netscape's

shares would take at least a year to regain

the \$74 they hit on flotation. With the

stock trading above \$140 last week, I have

learned my lesson. Readers who want a

prediction of Yahoul's flotation price

Tim Jackson can be reached at Tim Jack

should look elsewhere.

son... probax.com

Microsoft boss Bill Gates, discussing DreamWorks Interactive, a multimedia joint venture between Microsoft and DreamWorks SKG, the Hollywood studio founded in October 1994 by Steven Spiciberg, David

Geffen and Jeffrey Katzenberg. The venture is seen as a powerful new force in the swiftly growing realm of multi-

media PC software. However, its potential for problems

is "proportional to the size of the egos involved", in the view of one software industry exec-

Finances won't be a constraint at all for take company.

*London wine merchant Berry Bres &

Radd established in 1698, has become

the oldest company in the world to set

up on the Net (www.berry-bros.co.uk), and its page is a model of online niche

pleasant to read and a straightforward product index and order form. Prices

can be converted automatically from sterling to US dollars and yen."

The FT's Stephen McGookin

"Bad publicity about the availability of

pornography on the Internet has

obscured the

medium's poten-

In 18 months to two

years you will be able to

book a hotel room or an

aircraft seat simply by

talking at your comput-

er. You will not have to

be a computer interate

Marriott's Peter Dennis, heralding a

booking procedures.

"We wanted to be con-

servative about chang-

when there was strong

Bruce Lehman, a US official, who chaired a

eeded changing."

Commerce

walls." group that pondered the need to protect intellectual property

white paper recommended only mod-est changes in America's strict copy-

right laws, and suggested leaving untouched current patent, trademark

"The possibilities now being looked at

envisage a newspaper the size of the Financial Times being downloaded by

satellite to a personal computer in about

five seconds...The only constraints relate

to the speed at which the hard disc of a

"With this medium you don't have to water down the message as you do with

Jonathan Driver, brands publicity

Guinness's spirits arm, on the benefits

of direct contact with consumers via

cal mass, and it's unlikely that it will lose

its position as the universal language of

starting to see other languages gaining a

Richard Villers, a multimedia analyst

at International Data Corporation, on

English on the Internet. Many predict

that non-English languages will gain

ground in step with the commerciali-

the second of th

ion of cyberspace - producing

the use of languages other than

cyberspace any time soon. But we're

director at United Distillers,

The FT's Raymond Snoddy, describing developments and opportunities in the high-speed data delivery business.

person to do it "

Hotel group

tial for more sacred purposes."

marketing: a coloured text format that is

ve@mcgook.demon.co.uk) adding, in

The FT's John Authors on the unvoiling by British

providing Barmitzvah lessons over the Internet.

Ort, a large Jewish educational charity, of a service

the same column of Cyber Sightings:

"A recent system crash meant I lost a

file of stored e-mails. If you have con-

tacted me over the past couple of

"If audiences are simply offered the

more sensitive than that, or it's just

another video game."
MIT Medig Leb researcher Tod

choice to vote between faster and slow-er, or more or less harmony, the concert

will become boring. It has to be much

Machover, who is planning to stage

Brain Opera, a fully interactive musical event, at New York's Lincoln Center

of digital hyperinstruments. A concert incorporating hyperinstruments is due

to be held at London's Queen Elizabeth Hall next March 7, with a

two days later.

or watch their ads.

symposium, also on the South Bank,

"In effect, some of the billions of dollars now spent annually on media advertis-

ing, and on the printing and postage of

divvied up among consumers who agree

them as messages."

Bill Gates, predicting that advertisers will eventually pay people to read

"Just hope he [Gates] knows what he is

The FT's Michael Thompson-Noel.

SUPPORT

HELP FILL

THE CARE GAP

IN BRITAIN

Over one milion people are living with cancer in Britain

today - and the number is growing.

We need 150 more nurses before the end of this year to bring their unique care and relief to many more patients.

Give now - it's in all our interest. (1 in 3 of us get cancer).

I wish to add my support to The Macmillan Nurse Appeal

Exputy date ___ / ___ Signature _____

l wish to pledge: LS : L10 L (25 L L50 L Other L

1 I enclose my cheque made out to "Cancer Relief Macmillan Fond (F4)"

2. Credit card payment: Visa AmEx AmEx Macov, MC MC Other

Afr card mumber is

CANCER RELIEF MACMILLAN FUND FREEPOST LONDON SWIJBR

Cancer Rebel Macmillan Fund exact to support people with career and their tambée Regal. Charity No. 2010]?

Macmillan

direct-mail advertising, will instead be

to watch or read ads sent directly to

get in touch again."

weeks and I haven't replied, please

tion. (At present, it is used by more than

800,000 people daily. Last week, the service recorded more than 10m bits, or

clicks of a user's mouse, in a single 34-

The two chief Yahoos were deluged

with offers from venture capitalists who saw commercial possibilities. In April this

year, they gave in, took leave of absence from Stanford, and signed up with Mor-

itz's firm. Last month, their new company

brought in a second round of blue-chip

investors. Filo, Yang and Sequeia Capital

horses that Jonathan Swift's Gulliver visited on his final voyage. Filo and Yang,
now aged 28 and 25, became the venture's
chief Yahoos when their friends began to
use it.

Thanks to the Net's amplification of

Thanks to the Net's amplification of

Thanks to the Net's amplification of

kets by allowing people to download soft-ware freely off the Net - but both firms lar that it became one of the higgest users sell commercial versions of their product.

hour period).

"There are profound long-term impli-

cations for traditional retailers, includ-ing supermarkets, because a 10-20

market from the high street to the home could eliminate most retailers

profit margins."

Goldman Sachs, warning ster

age retailers to get involved in

interactive transactional electro retailing - "broadband mails" -

swiftly, or perish.

"It is rare for

any mature

inďustry to.

have the cotion

to go into nev

technologies

and to do so

Cincinnati, on

future of

newspapers.

"If we can pro-

vide comfort-

tive, large-value

packages that lots of people

ing, informe-

can enjoy, i

do well."
Robert

Wright, chief

executive of

America's

NBC network.

that there is still a future for free,

broadcast talevision as a refuse for

"Financial EDI (electronic data inter-

viewers daunted by the cost of pay-TV.

change) is still a problem. What is holding

it back is conservatism and the exorbitant

Cranfield School of Management's

Andy Bytheway, summerising criticism of the modest EDI role played by banks

to data. The banks say criticism of the cost of financial EDI neglects the sav-ings inherent in reduction of cus-

tomers' workloads associated with data entry, authorisation and reconcili-ation of cheques.

"The Day Football Changed Forever."
Report Murdoch-owned tabloid in
Australia on the magnate's plan to buy

heres - as part of his global

"If you think of a 9,600 beard modern as a

1 Inch gerden hose delivering information, with ATM we can build an information pipeline 27 ft in diameter."

John Patrick, vice-president of IBM

internet Applications, excited about asynchronous transfer mode (ATM)

technology that can increase commu-nications speeds to billions of bits per

"Advertisers, games companies and any-one else wanting to take part in the inter-

active revolution should orient themselves

to the personal computer rather than the

Mary Modehi, technology analyst.

The emergence of a globally networked

society means_service industries are

regulations to those with more flexible,

Kenichi Omae, former chairman of

react properly to changes occurring as a result of the media revolution.

"My job is to get a fair share of the soft-

ware applications market, and to me that's 100 per cent."

Microsoft executive.

McKinsey in Japan, who believes

Japan's bureaucracy is too slow to

multimedia irlendly law systems."

the sport of rugby league - in both

pay-TV-machinations.

second.

TV set.

I have come here with some trepidation: . . moving away from countries with rigid

charges which banks make for transac-

sively." Lou

ntage point switch in the retail

sell commercial versions of their product too. No. This is a stranger beast

In April 1994, two PhD students on Stan-

ford University's electrical engineering

course, David Filo and Jerry Yang, wanted to find a way of sharing their

favourite sites on the Web. They wrote a

into categories and sub-categories.

program to build a liferarchical list sorted

Internet legend has it that Yahool is an

acronym for Yet Another Hierarchical Officious Oracle. Literary-minded readers

will recall that the yahoos were the lout-

ish humanoids in the kingdom of the

horses that Jonathan Swift's Gulliver visited on his final voyage. File and Yang.

now aged 28 and 26, became the venture's

chief Yahoos when their friends began to

use it.

"Travel will be possible to worlds

unknown to the human race. Can you imagine you are a fish in an ocean? Or a

butterfly, or an ant, or a caterpillar? Well,

those are easy. But try to imagine you're an animal which, bies in a macrocosm according to its own laws and rules. We suppose there will appear a generation of writers and playwrights who will create such unbelievable worlds. And you may want to the fact that a

want to try living there." Stepan Pachikov, chairman of the

Russian-US company ParaGraph, whose AlterEgo software has been described by Silicon Valley's Regis McKerna as "Alice'in Wonderland stuff

Everyone from the chairman of Procter &

Gambia to the humblest assistant orod-

uct manager believes a marketing communications revolution is just around the

corner. Maybe. But I am a sceptic. It seems in me flag the alter zeelous per-ponents of statement marketing and inter-active TV misunderstand, quite funda-

mentally, how the selling process works.

endured, the experience of being a sales-

Perhaps they have never enjoyed, or

men in a shop."

Winston Fletcher, chairman of the

London-based Delaney Fletcher Bo

advertising agency, on the future of saling and salesmen.

"A digital time bomb is ticking away with-in the fields of corporate America.

Beckronic records, unverifiable and easily

tampered with, can explode into stagger-ing liabilities that undermine electronic

commerce itself. The Digital Notary sys-

tern defuses this firrest by giving busi-nesses the ability to safeguard and vali-

Scott Stometta, chairman of Surety Technologies, whose Digital Notary system creates the digital equivalent of

a paper audit trail. This helps users detect automatically if electronic docu-

ments have been tampered with or back-dated, and is based on patented

"The public will be able to engage in the

nation's political life in a significant way." Richard Clemmow, editor of the

broadcast at breakfast time when par-

"There are as many lerks online as any-

Debra Littlejohn, a Dallas police

via America On Line. She was decrib

ing Net relationships in general, not Shinder, whose credentials she

checked on a police database before

"If you don't have a front page - or pages - you don't have a mass audience. And

that means you can't charge as much for

advertising.
Michael Rogers, menaging editor of Nauroweek InterActive, describing the

need for electronic publications to pre-

with the panache of steam-age publi-

"We believe that informate will be the first

service of its kind to integrate electronic

online share trading and home banking and provide a real-time stream of peri-nent financial information directly into the hands of private investors, leveling the

playing field with the City dealer for the first time."

peter Home, group managing Grec-

tor of Apricot Computers, part of Mitsubishi Electric, on the introduction

Share dealing service.

It is easy to agree on principles, but less

Robert Allen, charman of AT&T, the

bargest US palecoms carrier; speaking privately on the eve of the G7 minister

of Britain's first online home

easy to implement them."

privately on the eve of the G7 ministers al conference on the information superhighway in Stussels last.

supernegrately of processes and politicisms coerced to believe that the first fallering steps towards creating a global information street as a fracture had been taken.

es and their contents

meeting - and marrying - him.

sergeant, who met her husband, Thomas Shinder, an Arkansas do

the debut of Westminster On Line.

BBC's live political program

date these records."

for the 21st century".

Yahoo! swiftly turns commercial

out that network television and radio have done nicely by offering their pro-gramming to the public for free, and

charging advertisers for appearing along-

side, he adds that newspapers might do the same if not for the cost of heavy

lifting involved in transporting trees from

Today, with numerous Web sites carry-

ing advertising banners, such a view

seems common sense. Last spring mat-ters were less clear: the Net's culture, pundits insisted was disdainful of adver-

tising. Advertisers were not sure how many people were looking at Web pages.

Yahoo!'s strategy has been to pull in

MANIMA.

"America's Security

First Network Bank

is the first financia

institution to con-

duct true online

banking over the

nternet...It claims to

have created a 'vir-

tual vault' for each

customer account.

computer operating

encryption and user

authentification

using a 'trusted'

system from Hewicitt ing the law, except

Packard, as well as consensus that the law

software, and fire-

from cyberpirates. Its long av

and trade secrets laws.

PC can absorb information.

others."

"The sale is signifi-

cant in that it is the

been placed on an intellectual property

that comes from the

ent of Global

Tim O'Reilly.

Network Navigator (GNN), a World Wide Web site, discussing GNN's

sale, for about \$11m, to America

"Europe spends... not much more on

education than the \$250bn it seends

just to support the unemployed.

up the prospect of new wes

More should be spent on educa-tion...The information society opens

broader market participation. When markets grow, democracy grows.

But if the transition is not correctly

guided, the information society will

be misshapen and will fuel new conflict and new forms of discrimination

or cultural subordination." Carlo De Benedetti, chairmen of

"No brand manager in one country can

company's brand managers in other

make a decision about the internst without impinging on the territory of the same

ian Lewrence, technology director of advertising agency Sesichi & Sestchi in

London, on one of the problems facing

companies as they ponder global elec-tronic marketing. For example,

in the US (or elsewhere) are significant lower than in other piaces could harm your customer relations worldwide.

"Everybody knows the internst has a lot

of information. For now, most of it is not

and academic discussion groups, pomo-

graphy and politics. By eliminating these

things not related to business, we make better use of resources at lower cost."

based China Internet Corporation, a subsidiary of Xinhua, China's official

news agency, which is providing a

special - le, severely restricted - ver-sion of the internet for Chinese busi-

"New hardware and software may make

inevitably make them less efficient first."

FT columnist Tim Jackson, describ-

people more efficient, but they akmost

ing the tiresomeness of getting to grips with Windows 95.

James Chu, chief of the Hong Kong-

**English has built up a criti-

really related to business. It is cultural

uncing on the Net that your prices

On Line. The transaction was

first time a value has

forests to doorsteps.

audience, the potential is imme

company has used its wealth to develop

its service. It now includes a free news

headlines service, better graphics, and a smarter user interface. It may follow a competitor in using technology to show

users different advertisements depending

on the information they are looking for.

There is no shortage of talent for consid-

ering the choices: the company now has a

small corps of professional managers, led by a Motorola veteran and a seasoned

manager from Novell's consumer division.

a Yellow Pages, listing every site in the

book, or a giant set of personal picks. The

service already editorialises by recom-mending some sites. But the Yellow Pages

analogy seems apt. About 3,000 people a

day submit sites for consideration, and

the vast majority are added to the listings.

AND THE PROPERTY OF THE PARTY O

It is an open question whether Yahoo is

der Mark is 1995

the it is a lost daily news ! Come and (Stellar State) rides l'a vil - recovery plus At the second or property under fire form that, must better tepta

the bear of the proposed to

plantiff of the ball Hemore

of a title of the first called to Sedem plant fire highly free sufactions and name for to the firms attached the **経**の引きさないの Stankiel enteres of the appropria port of the and all anero die daten den bestigt Marie and Laborate Marie

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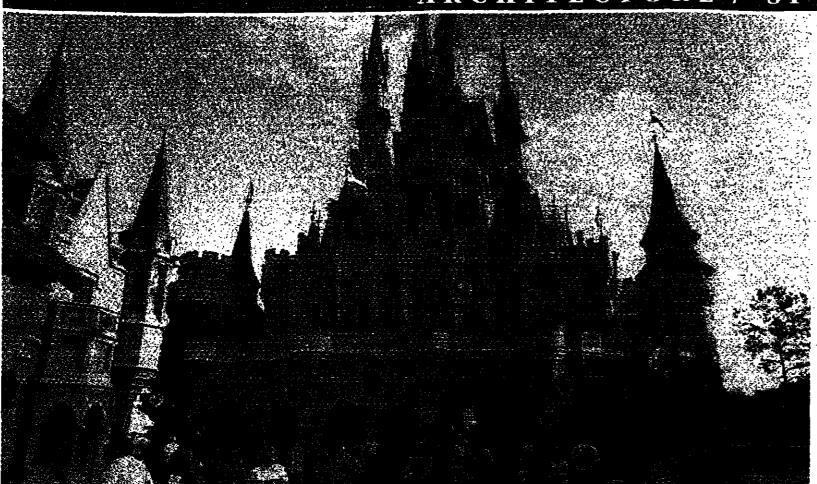
Back of State &

ESTAL STATES

1.1

Line Martin of Spinesson





Dream castle may yet be realised: money generated by Britain's lottery has been a windfall for architects large and small

Camelot grants profession's wish

very morning Britain's architects
wake up and think of Camelot.

Wake up and think of Camelot.

Wondering whether – thanks to

It hasn't sunk in what a huge difference this will make, not only to the the national lottery - the chance is coming to build that "many-tower'd" city in England's not-so-pleasant land. The be-knighted architects (there are more knights in the architectural profession than any other) gather at their round tables and start to draw their dreams. It seems incredible that suddenly there is money for buildings and not ant heaps of offices, or fields full of hutches for human rabbits, but dreamlike pleasure domes to be filled

with art, athletes, music and dance. Has an architectural bonanza arrived? The Royal Institute of British Architects did not have figures for me. but felt that many more architects were now being paid to do many more feasi-bility studies. Yet many architects 1 know are claiming that the consultants are bankrolling many lottery bids until they are certain of receiving grants. Consultancy fees are fast eating lottery millions. The four main distributors now announce their grants so regularly that they cease to be news. Yet the chairmen of these bodies are behaving like Franklin D Roosevelt in the 1930s handing out the cash in ways that offer a new deal for sport, the arts and

profession but to national life. The problem is matching funding. The men who control the lottery cash do not give complete gifts - they have limits, and mostly ask for 50 per cent in matching funding for all schemes (though some times less). The millennium commission, for example, cannot give more than 250m to any one project. That leaves the largest proposed project, the millennium cycle route, to find matching funds of some £141m. The Royal Opera House has to find £100m, and the Tate Gallery £56m before it moves into its converted Bankside power station. Matched fund-giving like that cannot be managed by local authorities or private benefactors.

A few days ago the lottery sports fund wisely changed its criteria, raising the maximum available grant from 65 per cent to 90 per cent of overall cost and in some cases to the full 100 per cent. This will apply mainly to applications from urban areas of real need.

Surely lottery money should be handed out on as generous a basis as possible. After all, the money does not belong to the grant-making bodies. It is the people's, and it is hard to see why it

should not be used to fund the whole cost of new projects.

The chairman of the lottery's sports committee is to be congratulated for recognising immediate needs and acting upon them. The millennium commission, in contrast, has had to encourage the invention of ideas on which to spend lottery money, and to date grants have been made to a bunch of pioneering - indeed, experimental - projects. However, architects have plenty to celebrate. Let us hope the search for matching funds will not mean years of delay. Projects to celebrate the millen-nium should be the most exciting, and

the Earth Centre near Doncaster promises to be the wildest. Three firms of

architects have designed an enormous

butterfly that has landed in a wood and

will glow in the dark. In turn, Portsmouth stands to benefit from a millennium project worth £86m, though no one seems sure who is to design the great beacon tower that will welcome people who sail into the harbour through a display of fountains. (There is a related bid for lottery heritage cash for the restoration and re-use

of the historical dockyards). Breathing walls and passive solar heating are two of the ideas for the Vision Centre at Manchester - a complex devoted to the spreading of the gospel of sustainability and green design principles. The scheme is the sign principles. The scheme is the brainchild of an architectural group

called Community Regeneration.

Architects are also hoping for a lot of promising work on smaller schemes, such as the numerous bids for community halls and for small sports halls. The way these new facilities are used also matters. The Sports Council has shown the way with its insistence that new sports facilities for schools are also available for community use. The heritage lottery fund could also take a lead by looking at the opening hours of local and national museums before giving money. The opening hours should be much more flexible.

As for the Arts Council, it should be doing more for architecture with its lottery cash. It tries to encourage and sup-port only applications of real architectural quality, but architecture as an art receives only a tiny sum. Slightly more than £500,000 has gone to architecture so far, while much-subsidised opera had received £28m up to November. Opera simply does not have the impact on people's lives that architecture does.

Colin Amery

Year's play blends wicked with sad

Gamesmanship hit highs and lows during 1995

Readers unfortunate enough to share their lives with teenage children may have enough of the argot to know that life's events can be categorised, broadly, as "wicked"

Anything exciting, novel or infuriating to those in authority can be classed as "wicked". "Sad" is more complex, being far more than a synonym for pathetic. It corresponds to what an arlier generation called "square" – solid, tradi-

tional, possessing a melancholy gravitas.

Looking back at the sports year it seems, to my perverse eye, that the most interesting incidents were not the championships won and records broken, but the vignettes of behaviour -"wicked" or "sad" - that put pepper in the stew. The US golf tour was criticised in the Ameri-

can press when it was announced that Tom Kite would captain its Ryder Cup team at Valderrama in 1997. Kite, said the knockers, had become the tour's all-time biggest earner (more than \$9m) with a succession of seconds and thirds. He was not a winner.

However, the memory of a foggy morning at The Belfry during the 1989 Ryder Cup convinced me Kite was the man to recover the trophy for America. He stepped up to the tee in a foursomes match, partnering Curtis Strange against Seve Ballesteros and Jose-Maria Olazabal.

Ballesteros likes to psych up the opposition, which helped make him the world's greatest match-play opponent. On that Warwickshire morning, there was a little gamesmanship that the quiet, bespectacled Kite and the steely Strange seemed not to appreciate. Kite struck savagely and out-drove Seve by 20

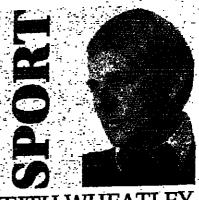
yards. "Remember the Alamo," he growled at his Spanish opponent, recalling the battle that freed Texas from the Hispanic yoke. The contest at Valderrama, with Ballesteros likely to be Europe's captain, should be a duel to savour. In English soccer, Wimbledon Football Club's

vision of a mass emigration to Dublin is in that club's finest tradition of iconoclasm. A team that gave the world Vinny Jones, named themselves the Crazy Gang and seem to view being homeless and fanless as glorious independence, are capable of anything. Owner Sam Hammam managed to enrage the Premier League, the FA, Uefa and Fifa, probably the first time they have shared a unanimous

viewpoint in years. The red herring of an alternative move to Cardiff, playing at Arms Park, provided a sub-plot that left one gasping. Yet the reasoning is faultless.

London has too much football whereas Ireland is desperate for it - not least after last week's drubbing by Holland, which excluded Ireland from Europa '96, the European soccer championship finals. Pleading to the European Court in the Jean-Marc Bosman freedom-of-contract case

last week, Uefa argued that "football is a special financial entity". Quite. Since the game already ignores economics, morality and gravity, why should Wimbledon FC not ignore geography? Last April, discussing the sale of the Los



KEITH WHEATLEY

Angeles Rams to St Louis for \$260m. (£164m) I wrote: "Manchester United is now a leading international sports brand. Its players come from the global transfer market and the connection to the damp Lancashire city is mainly historical rather than contemporary." Old Trafford may be safe for a year or two, but Wimbledon are about to prove the general point.

Prime Nabiola international athletics

Primo Nebiolo, international athletics supremo, gets the Teflon award for dodging sticky allegations. The latest revelation - by a man until recently a close Nebiolo aide - is that British athlete Sally Gunnell should have been the International Amateur Athletics Federation's choice as Sportswoman of the Year in 1994, but that voting numbers were adjusted to overcome presentational difficulties.

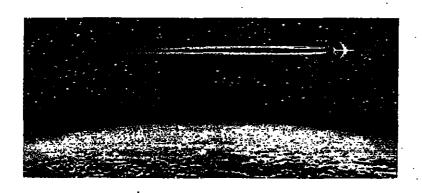
Christopher Winner - the IAAF's former press officer - making the claims, managed to leave his job before Nebiolo's mid-summer media problem with another female. In Gothenburg for the athletics world championships, he was interviewed on live TV by Britt-Marie Mattsson, Sweden's answer to Barbara Walters.

Ruffled by queries about his tsarist manage-ment style, Nebiolo demanded to know how many men Britt-Marie had slept with. "In 23 years as a journalist I've interviewed dictators and other nuts, but I've never met anyone who behaves like Nebiolo", she declared.

Angling doesn't often reach these columns

but one has to toast Yorkshire fisherman Andrew Jennings as one of the gutsiest and most self-confident sportsmen of the year. Last spring he entered the televised Fish-o-Mania competition, the biggest in the north of England. Jennings was incensed when local bookies gave him odds as unflattering as 20-1. So he staked the £500 he had won as a qualifying-round prize on himself to win. When his day's catch of 43 lb 2 oz gave him victory. Jennings banked a winner's cheque of £25,000. plus another £10,000 from the bookies. He'd even persuaded his brother into a £500 punt, giving the Jennines family a total haul of £45,000.

May the new year bring us more folk like Jennings and fewer like Nebiolo.



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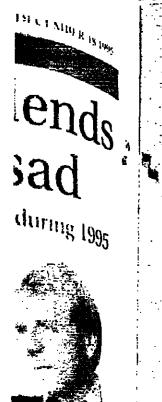


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Et a da Annual training Fellow begins on a of the Ast B

Since it was first seen in London to Seeming years ago, Nicholas Hydrer's CNO Beating production of Handel's "Kenes" has regarded travelled for After visits to Russia in 1990 and Chicago in September, it now comes to the Flanders Opera

FRANKFURT Frankfurt has an existation of Netherlandish ort from the 15th and 18th centuries, but it is chided between a wellety of museums. For the first time, the Stadel is . offering an overview of the collection, in a show opening on Decembe 29. It traces the mejor changes which Netherlandish art underwent from the period of Jan van Evek to the mase production of the saily 18th carety Golden Age",



LONDON Two cuit musicals rature to London over the Christmas period, each for a fimited period: "Privates on Parade opens at the Greenwich Theatre tonight with Tony Slattery, and "Return to the Forbidden Planet" (left) at the Shaftesbury Theetre tomorrow

The Opera Comique has made the unusual choice of a German work for its Christmas show - Otto Nicolai's comic opera "Die kustigen Weiber von Windoor". It forms part of a Falstell cycle which will feature works by Vardi, Salleri and others. Günther von Kennon is Sir John in this new

Questions of life and death

Alastair Macaulay on the lasting qualities of Tom Stoppard's play Rosencrantz and Guildenstern...

No! I am not Prince Hamlet, nor was on chance? Are we distinct individ-meant to be Am an attendant lord, uals? Or no more different from one that will do! To swell a prog-

hus speaks J. Alfred Prufrock in T.S.Eliot's 1917 poem; and 49 years later Tom Stoppard made his name as the wise guy of modern English theatre by turning those peripheral characters from Hamlet, Rosencrantz and Guildenstern, into the leading characters of a Pruirockian play. Clever idea, and Rosencruntz and Guildenstern are Dead remains a clever play; and funny; and intriguing. Now that the National Theatre has revived it in a new production, we: can see that it is (at three hours, with two intervals) still longer than it needs to be; and that Stoppard has gone on to write yet better plays. Nonetheless, this play seems more assured of a place as a modern classic than anything else he has

In several respects, Rosencrontz looks forward to much of what
Stoppard has written since. The
occasionally-glimpsed Hamlet mate eyed both, they also look a bit like ters here in much the same way as denstern, minor characters who are here shown centre-stage, prefigure the Henry Carr of Travesties who finds himself caught up with Tristan Tzara and James Joyce and

As Stoppard was saving the other day on Radio 4, his original plan was to show Rosencrantz and Guildenstern arrive in Britain only to find it ruled by King Lear. The idea is so witty that you long to see it fleshed out; and in fact it is the very idea whereby Stoppard put Tzera and Joyce and Lenin together in sties. Even though the epistemological chat here - what do we know? what do we remember? owes a vast amount to Beckett and especially to Waiting for Godot,

much of it is echt Stoppard. But, as its title warns you, Rosencrantz and Guildenstern are Dead is above all ontological. What will death be like? and what, for that matter, is life like? Are we always the centre of our own universe? Or is our life in fact shaped mainly by our dependency on other people and

each other than sheep? The shadow that death casts on this play looks forward to later Stoppard plays right up to *Indian Ink*. But the beauty of this one is that Rosencrantz and Guildenstern spend most

of their iives offstage, so to speak. Yes, eventually they die; and dving means an end to living, but do you call this living? They are forever waiting in the wings of Prince Hamlet's life. Will death be so very different? This brilliant conceit gives Rosencrantz and Guildenstern their comedy in our eyes, and their pathos. Beneath its clever surface, there is a real existential quandary here. The protagonists live passive lives, on thin ice; and they wait to see what will happen to, if nothing else, the ice.

n Matthew Francis's produc tion, Simon Russell Beale (Guildenstern) and Adrian look faintly like Tweedledum eyed both, they also look a bit like beige penguins. We can always tell the difference between them, and each other in the way they talk. But the similarity is there, and is per-

Russell Beale dominates (Guildenstern is the more distinctive role). In his control of the play's pacing its intelligence, its spontaneity, its comedy, he shows himself more clearly than ever to be one of our very finest actors. He does nothing to draw our attention to his technique, but there are wonderful details, such as the slight but telling pauses he injects into one of his Act Two speeches to the Player. And then the gathering weight he gives to the speech about "You can't act death": in which he tells the Player that death is just "a dis-appearance gathering weight as it-goes on, until, finally, it is heavy

with death". Superb. Scarborough, in the harder and more passive role, tends too often to speak his lines as if (as a friend said) in inverted commas. Nonetheless, he very well catches Rosencrantz's helpless condition, comically poised on the brink of utter



Luxury casting: Adrian Scarborough, Alan Howard and Simon Russell Beale in Matthew Francis's new production at the National Theatre

tion and otter oblivion. Alan Howard is, I suppose, luxury casting as the Player. His high-technique actorliness of voice is so pro-nounced that the National, astutely, ms to east him only now in artificial or crazy roles. Few actors are more compelling or more peculiar, at times he employs a quivery brassy high vibrato that reminds me of Ethel Merman, at times he is

ignorance and utter depersonalisa Donald Wolfit redivivus, at times he is the Ancient Mariner to the life. In other words, he too often distracts me from the play.
Francis's direction keeps most

aspects of the play very fresh. But Lez Brotherston - usually an excellent designer - has provided several layers of partly translucent decor that surround the play with more fuss than it needs. One staircase got stuck in Act One; a wall wobbled

badly in Act Two: and I was dismayed to keep seeing a technician in Act Three. Nor do the deaths of the play's title make their proper impact when preceded by the squeaky sound spillage from the intercom worn by the semi-visible technician hovering to render Guildenstern perpetually invisible.

In repertory at the National Theatre, South Bank, SE1.

Christmas Theatre

From Scrooge to Sondheim and more

he most celebrated Christmas show of the 1990s, Alan Bennett's National Theatre version of The Wind in the Willows, has at last transferred to the West End this year - or, to be precise, to the Old Vic. The production has been revised somewhat since Nicholas Hytner first staged it at the Olivier Theatre in 1990, but it remains a thoroughly Bennettian study of Englishness and it retains its speciacular scenery.

Meanwhile the Royal Shakespeare Company revives its 1994 production of A Christmas Carol – on which opinions last year were severely divided – at the Barbican Theatre. (Eight performances a week until January
13.) The stage adaptation of this Dickens classic is by John Mortimer, the staging is by Ian Judge, and Clive Francis plays

Scrooge.
But these are revivals. New seasonal fare includes The Jungle Book at the Young Vic, directed by Tim Supple with music by Adrian Lee; and Hansel and Gretel at the Lyric Hammersmith, adapted by Michael Dalton, staged by Red Shift and Pop-Up companies.

se who require "non-Christmas" entertainment over the Christmas season, there are several important London openings during December. The Donmar Warehouse's very successful (standing room only) Williams's The Glass Menagerie has transferred to the Comedy Theatre. Claire Skinner's performance is among the most memorable before the London public, and Zoe Wanamaker does good if not great

work as her mother. Meanwhile, back at the Warehouse Mendes is at work on the Stephen Sondheim musical Company, which opened last week, a sequel to his 1992 staging of Sondheim's Assassins and an interesting companion or alternative to the National Theatre's current staging of Sondhelm's *A Little Night Music* The cast includes Sheila Gish and Adrian Lester. At the National Theatre, one of

the most celebrated plays of the modern era, Tom Stoppard's 1966 Rosencruntz and Guildenstern are Dead, is revived in a new production by Matthew Francis on the Lyttelton stage (reviewed, left). Francis, the artistic director of the Greenwich Theatre, is making his National debut. Simon Russell

Beale, at the end of a year in which he has played Ferdinand in *The* Duchess of Malfi and Mosca in Volpone, acts Guildenstern, and Adrian Scarborough acts Rosencrantz.

At the Pit, the Royal Shakespeare Company stages Lord Byron's Case, retelling the tale of Cain and Abel. John Carlisle plays Lucifer, and the staging is by John Barton. The 1821 play - not written for the stage - is an interesting choice: a 19th-century Old Testament counterpart to the same theatre's recent staging of Dennis Potter's New Testament Son of Man. (It will be reviewed in the Financial Times this week.)

new play about poker, According to Hoyle by William Gaminara, opened Lat the Hampstead Theatre on December 11. Robert Lefevre directs. At the Almeida Theatre, The Tower is Charles Wood's version of Alexandre Dumas's Le Tour de Nesle. The production brings Sinead Cusack back to the London stage, with Adrian Dunbar playing opposite her.
At the Greenwich Theatre,

opening tonight, Peter Nichols's Privates on Parade is revived by Paul Clayton, with Tony Slattery and Paul Slack, directed by Paul Clayton.

Sondheim apart, London has an unusually varied clutch of musicals on display at present: the recent additions to the list include Prisoner Cell Block H at the Queen's Theatre, Jolson at the Victoria, and Mock and Mabel at the Piccadilly Theatre. On December 19, the Shaftesbury Theatre sees the return of Return to the Forbidden Planet – for four weeks only.

For those in need of comedy, the new Shakespeare Revue at the Vaudeville Theatre should add several items to the any lover of comedy's collection of vintage material. But the great play about comedy is Terry Johnson's Dead Firmy at the Savoy Theatre: not to be missed. (Meanwhile, the same playwright's 1993 *Hysteria* is revived at the Duke of York's Theatre, directed by Phyllida Lloyd as part of the Royal Court Classics

And vintage comedy of another ilk is the hilarious 18th-century Wild Oats, in repertory at the Lyttelton Theatre, directed by Jeremy Sams and beautifully cast down to the smallest roles.

A.M.

INTERNATIONAL

AMSTERDAM

CONCERT Concertgebouw Tel: 31-20-5730573 Robert Schumann Ensemble: perform works by J.S. Bach, Schubert and Faure; 8.15pm; Dec DANCE

Hot Muziekthester Tel: 31-20-5518117 Romeo and Juliette: a choreography by Rudi van Dantzig to music by Prokofiev performed by Het Nationale Ballet with Het Nederlands Balletorkest, 8pm; Dec 20 (2pm), 21, 23, 24 (2pm)

ATLANTA EXHIBITION High Museum of Art

Tel: 1-404-8989284 Fine art at the Cotton States and International Exposition Atlanta 1895: an exhibition commemorating the centennial of the Cotton States and the international Exposition held In Atlanta in 1895. It offers an overview of the fair and a focused

examination of the fine arts presentation. Exhibits include works by Mary Cassatt, Winslow Homer and James McNeili Whistler, to Dec

BERLIN:

CONCERT Deutsche Oper Berlin Tel: 49-30-3438401 The New London Consort with conductor Philip Pickett perform a Christmas concert of ancient music; 7pm; Dec 19 Konzerthaus

Tel: 49-30-203092100/01 Weihnachtsoratorium: by J.S. Bach, Conducted by Peter Schreier and performed by the Stantsopernchor and Staatskapelle Berlin, Soloists include soprano Carola Höhn, alto Rosemarie Land. tenor John Mark Ainsley and bass Geert Smits; 8pm; Dec 21, 23 (4pm)

■ BIRMINGHAM

CONCERT Symphony Hall

Tel: 44-121-2123333 Das Lied von der Erde: by Mehler. Performed by the City of Birmingham Symphony Orchestra with conductor Sir Simon Rattle, tenor John Mitchinson and baritone Thomas Hampson; 7.30pm; Dec 19

BONN. OPERA & OPERETTA

Oper der Stadt Bonn rel: 49-228-7281 ● Hansel und Gretel: by Humperdinck, Conducted by Shuja Okatsu, performed by the Oper der Stadt Boon, Soloists include MichaelVolle, Birgit Beer and Thomas Mohr; 8pm; Dec 19, 21, 25 (6pm); Jan 1

■ COLOGNE

DANCE Opernhaus Tel: 49-221-2218240 Goya: a choreography by Jochen Ulrich to music by Bo Verspaendonck, performed by the Ballett Köln: 7.30pm; Dec 20

■ FLORENCE OPERA & OPERETTA

Teatro Comunale Un Ballo in Meschera: by Verdi. Conducted by Semyon Bychkov, directed by Alberto Fassini, performed by the Orchestra e Coro del Maggio Musicale Florentino; 8.30pm; Dec 19, 20, 21

■ FRANKFURT EXHIBITION

Schim Kunsthalk Tel: 49-69-2998820

 Inoue Yu-Ichl: part of a tripartite exhibition of the work of this Japanese artist. The paintings and drawings on display show the bombardments of Hiroshima. The artist's work is also on display in the Kunsthandwerkmuseum and Karmelitenidoster in Frankfurt; from Dec 19 to Feb 11

■ HAMBURG

Hamburgische Staatsoper Tel: 49-40-351721 Odvssee: a choreography by John Neumeier to music by George Couroupos, performed by the Ballett Hamburg; 7.30pm; Dec 19, 20

■ HELSINKI CONCERT

Finlandia-talo - Finlandia Hall Tel: 358-0-40241 Helsinki Fitharmonia: with conductor Okko Kamu and pianist Paavali Jumppanen perform works by Tchalkovsky and Dvorák; 7pm; Dec 19

LEIPZIG

CONCERT Gewandhaus zu Leinzig Tet: 49-341-12700 Suk Kammerorchester Prag; with violinists J. Suk and P. Macesek perform works by Vivaldi, Pergolesi, Richter and Dvorák; 8pm; Dec 19

LONDON

AUCTION Sotheby's Tel: 44-171-4938080 • English Literature & History: the auction includes a series of letters from Lord and Lady Byron, and letters from their friends; 10.30am & 2.30pm; Dec 18 CONCERT Royal Albert Hall Tel: 44-171-5823861

 Christmas Carol Concert: the Royal Chorat Society, the London Concert Orchestra and the Fanfare Trumpeters of the Band of the Irish Guards conducted by Richard Cooke, with organist John Birch, perform Christmas classics; 7.30pm; Dec: 19

St. John's, Smith Square Tel: 44-171-2221061 The Sixteen: with conductor Harry Christophers and harpist Sioned Williams perform Britten's "A Ceremony of Carols" and Respighi's "Lauda per la Navtivita del Signore"; 7.30pm; Dec 19 THEATRE

Olivier Theatre Tel: 44-171-9282252 Volpone: by Ben Jonson. Directed by Matthew Warchus. The cast includes Michael Gambon; 7.15pm; Dec 19, 20 (2pm)

■ MADRID CONCERT

Auditorio Nacional de Música Tel: 34-1-3370100 Orquesta Sinfónica de Madrid: with conductor Francisco de Gálvez and pianist Paul Badura-Skoda perform Beethoven's "Die Ruinen von Athen* and "Symphony No.3"; 7.30pm; Dec 19-

NEW YORK

OPERA & OPERETTA Metropolitan Opera House Tel: 1-212-362-6000 Die Fledermaus; by J. Strauss. Conducted by Hermann Michael and performed by the Metropolitan Opera. Soloists include Nancy Gustafson, Janet Williams, Jochen Kowalski and Neil Rosenshein; 8pm; Dec 20, 23

■ PARIS

THEATRE Comédie Française, Salle Richelieu Tel: 33-1 40 15 00 15 Phèdre: by Jean Racine, Directed by Anne Delbée, costumes designed by Christian Lacroix. Starring Catherine Samie, François Beautieu

and Martine Chevallier; 8.30pm; Dec

■ STUTTGART DANCE

Tel: 49-711-221795 Stuttcart Ballett: perform the choreographies "Metaforen" by Hans van Manen, "The Time Will" by

Stephan Thoss and "Orfeas" by

Roberto de Oliveira; 7.30pm; Dec 19

VIENNA

OPERA & OPERETTA Wiener Staatsoper Tel: 43-1-514442960 Jérusalem: by Verdi. Conducted by Zubin Mehta and performed by the Wiener Staatsoper. Soloists include José Carreras, Ellane Coelho, Samuel Ramey and Davids Damiani; 7pm; Dec 19

WASHINGTON

CONCERT Concert Hall Tel: 1-202-467 4600 Oratorio Society of Washington: with conductor Robert Shafer perform choral Christmas music. An annual event; 7pm; Dec 19, 22 (8.30pm), 23

ZURICH **OPERA & OPERETTA** Opernhaus Zürich

Tel: 41-1-268 6666 Simon Boccanegra: by Verdi. Conducted by Nello Santi and performed by the Oper Zünch; 7.30pm; Dec 19, 21

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Michael Prowse · America

No hurry on rates

The case for lower US interest rates looks persuasive - but. though growth has slowed, there are grounds for caution

Wall Street is salivating at the nors and regional presidents prospect of interest rate cuts. predicted the consumer price Bond investors are convinced index would rise by 3-3.5 per cent this year. Yet the data the Federal Reserve will follow European central banks have been consistently better and cut short-term rates by a quarter or half point, if not than expected: consumer prices were unchanged in November and up 2.6 per cent on an annual basis. In the three months to November. consumer prices rose at an

this week then in January. By early summer next year, many financial economists believe a substantial easing of monetary policy will have annualised rate of 1.8 per cent. occurred. The federal funds rate - the cost of short-term loans for banks - is seen as For the bond market, which buys the argument that the CPI substantially overstates falling as low as 4.5 per cent, the true inflation rate, this is against 5.75 per cent today. tantamount to "price stabil-Proponents of rate cuts dis-

agree on the timing of Fed action. Some think the Fed will demonstrate its independence of the political process at its meeting tomorrow and announce a decisive half point cut in rates. Others say it would be reluctant to move while parts of the federal govnt are closed and before the warring parties have reached a final agreement to balance the budget. On this view, the Fed might opt for a monetary directive biased toward easing, giving Mr Alan Greenspan, the Fed chairman, discretion to cut rates at a propitious moment. The bottom line, however, is that rates are coming down - and

As the chart illustrates, yields on government securi-ties of all maturities have fallen steeply, not just since November last year (when investors still feared the economy was overheating) but since early July when the Fed announced its first, tentative cut in short-term rates to 5.75 per cent. In an unusual inversion of the yield curve, yields on Treasuries of maturities up to 10 years are now below the federal funds rate. This is the clearest possible signal that financial markets believe Fed policy is too restrictive.

The theoretical case for a substantial easing rests largely on the apparent absence of the upward pressure on inflation typically experienced in the late stages of a business cycle. As

recently as July, Fed gover-If inflation had risen to 3.5

Other indicators provide corroborating evidence. Commodity and wholesale prices are behaving themselves. Labour markets are astonish ingly quiescent: the broadest measure of employment costs (which includes fringe bene-fits) is growing at its slowest

rate in decades. Nobody has a fully convincing explanation of this trend. but the "globalisation" of economic activity is widely seen as having permanently shifted power from workers to shareholders. US employees dare not complain, the argument runs, because management now has the option of shifting production to somewhere like Thailand or Mexico, where labour costs are far lower.

The second leg of the argument for rate cuts is that economic growth has slowed sharply. Few economists fear

Yields on US treasury securities (%)

Will Greenspan follow the markets?

a full-blown recession but, as they run through the various sectors, many can find little evidence of vitality. The consumer is heavily indebted; manufacturers are still burdened by excessive inventories; and export prospects are threatened by the disappointing performance of both the Japanese and European econo-

per cent, say proponents of rate cuts, a federal funds rate of 5.75 per cent would represent a real rate of just over 2 per cent. This could just about construed as a "neutral" monetary policy. But with inflation even as measured by the unreliable CPI, running at only about 2.75 per cent, the real fed funds rate is now close to 3 per cent.

This is far too restrictive, claim many Wall Street economists, given that most sectors of the economy are either sluggish or in decline. Hence the prediction (embodied in the yield curve) that the Fed will cut rates by a percentage point or more in the next few

Put this way the case for easing policy certainly looks persuasive. Yet there are grounds for caution. In the first place, the US economy is nothing like as weak as those of Europe and

Japan. The jobless rate is 5.6 per cent, suggesting the economy is operating at, or perhaps slightly above, its poten-

> screws significantly. Taking away the punch bowl just as the party gets going is the traditional - and banks. Mr Greenspan rose to this challenge superbly last year. His guests - at least those resident on Wall Street bar be re-opened. The Fed should wait for confirmation of economic weakness before obliging - and then stick to beer and wine: an already tipsy bond market does not

> tainly decelerated, but that was the goal of last year's monetary tightening: you cannot have a "soft landing" without slowing the pace of an expansion. Activity, in any case, has been temporarily depressed by several special factors, including the lengthy Boeing strike and the delay in agreeing a 1996 budget under the emergency rules federal spending is lower than

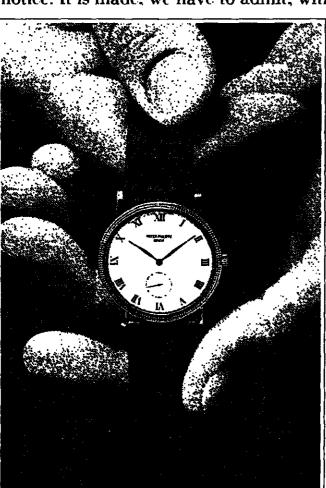
tial. Economic growth has cer-

As these temporary restraints are lifted, growth may rebound naturally to about 25 per cent next year close to the long-term trend. Since there is little or no slack to take up, the benefits of adding to the substantial stimulus already provided by lower bond yields and higher share prices are at least questionable: nobody, incidentally can say with precision what constitutes a "neutral" federal funds rate. A looser monetary policy would certainly stimu late faster growth of nomina gross domestic product. But would this he reflected in faster real growth or higher infla-

Those who believe inflation will never revive should recall that strains are usually felt late in business cycles when growth (and hence labour productivity) is declining. Wages began to accelerate in the late 1990s only when the jobless rate fell below about 5.5 per cent, a range that the Fed has managed to avoid only by tightening the monetary

unpopular - task of central are now demanding that the

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From China in the east to California in the west, these leaders of the future are already

making their mark in business, politics, science and the arts.

Shi Yuzhu · By Tony Walker

Shy giant with brain of gold

Some might regard Mr Shi Yuzhu's ambitions as far-fetched. But in China these days, a man's reach may indeed exceed his dreams, and Mr Shi, a shy mathematics graduate from Anhui, one of China's poorer and more backward provinces, is bent on proving it.

Like thousands of other Chinese entre preneurs he has taken advantage of the economic liberalisation of the past decade or so to build a thriving business. In just six years, his Zhuhai Giant Advanced Technology Group has grown from a soft-ware venture with a staff of two into an enterprise with interests from biotechnology to retailing, an annual turnover of Ynibn (\$130m) and a workforce of

The 33-year-old entrepreneur seems set to become a force in the Chinese business world - and perhaps beyond - into the next century. By the end of the decade, he plans to have opened 2,000 retail outlets across China selling consumer items, including the computer software and healthcare products marketed by his com-

When he graduated top of his class in mathematics in his county school, Mr Shi's dream was to emulate Mr Chen Jinrun, China's foremost mathematician Now his ambition is to make Giant China's top-ranked private company. "All my dreams are linked these days with the Giant corporation," he says.

He is sometimes referred to as China's Bill Gates, who founded Microsoft, since his business began by producing computer software. One of his early successes was the "thinkpad", a gadget that allows computer users to enter Chinese characters into their computer by writing them rather than having to remember the complex strokes to key them in.

But Mr Shi sees a more appropriate model in Lord Sieff, the former chairman of Marks and Spencer, the UK store chain. His planned assault on China's consumer products market would follow some of the practices employed by the British retailer. "We want to become a business that serves the family," he says. "Only after you become part of the daily life of people can you grow really big."

Mr Shi was thinking big right from the start of his career in business, which was why he named his company Giant. "We had a vague idea of setting up something big - a multinational," he recalls.

From an initial investment of Yn4,000 (\$493), borrowed from friends and family, the company has grown with surprising speed - even by the standards of China's economic revolution. "The philosophy and



Only after you become part of the daily life of people can you grow really big'

time as we keep growing," he says. Giant is now devoting substantial resources to developing and patenting healthcare products. Its "gold brain" cap-sule, a tonic that was said to improve the functioning of the brain, has been an enormous commercial success. Marketed in the summer, in the run-up to China's annual high school exams - a make-or-break event for Chinese teenagers - it produced net profits of Yn150m for the company. Now Giant is promoting a slimming preparation, and working on an elixir that would slow the ageing process.

Mr Shi insists that software will remain

a core activity no matter how fast the business develops in other areas. "Of course, there is no way we can compare ourselves with Bill Gates," he says. "But one thing we can certainly learn from him is never to give up this high-tech

His newest product is a selection of 66 laser discs incorporating a comprehensive selection of Chinese textbooks. But Giant, like the big multinational software producers, finds its products are pirated almost as soon they are released. "That is why," he says, "we try to bring out a new prod-uct every six months - to stay ahead of

Mr Shi is the antithesis of the pampered sons and daughters of the communist

elite, many of whom pepper China's new business class. He dresses modestly like all members of his male staff in the company uniform of white shirt, dark trousers and matching navy tie. Women wear white blouses and navy skirts. His salary is Yn10,000 a month The entrepreneur says he is applying

some of the principles of the communis revolution to his business. "If you want to build an army, a party or an enterprise, you need to have a principled and disti-plined organisation," he says. "You should strive hard and live frugally. I don't think one needs too much money for one's own

Following a tenfold growth in staff numbers in the past year. Giant is for the first time coming up against personnel prob-lems such as how to weed out nonperformers. We rarely fired our people before. But now we are starting to do it." he says. "We are expanding so rapidly that we are finding people are not up to stan-dard. We tell them this is not a state-

Remarkable as it may seem, Mr Shi is not the acknowledged owner of the business he has built. It is regarded as a collective enterprise owned by the staff, and technically under the authority of the Zhuhai special economic zone which faces

He wants this issue clarified in time for Giant to be listed on one of China's stock exchanges. He recognises that if the company is to grow into the conglomerate be

envisages it needs fresh capital.

While Mr Shi is shy to the point of finding it difficult to communicate with a foreign journalist, there is no doubt that underneath a diffident exterior he is both tough and creative - and almost certainly something of an eccentric. Visitors to his spotlessly clean head-

quarters - no smoking on the premises pass an eclectic mixture of statues on the way to his office. On either side of a corridor are life-size statues, including George Washington, Isaac Newton, Confucius, Napoleon, Marie Curie, Beethoven, Mao edong and Deng Xiaoping.

There is also a vacant plinth - left, according to Mr Shi, to raise the question in people's minds of who might be worthy to stand alongside others of such profound achievement. He rejects a suggestion, with a laugh, that in time it might

As Giant becomes bigger and more successful in the raw Chinese business environment, Mr Shi is likely to find it more difficult to achieve his ambitions. But no one should doubt his resolve to stay the

LETTERS TO THE EDITORS

Number One Southwark Bridge, London SEL 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to 44 171-879 5838 (please set fax. to fine), e.mail: letters editor@fi.com Translation may be available for letters written in the main specimal languages.

Experience counts

From Mr Erik Tonseth Sir, It is regrettable that Mr Richard Needham, a former overseas trade minister, takes such a chauvinistic line in his letter to you (December 16) on

Kyaerner's bid for Amec. With his overseas experience he more than most would know that in global markets it is size, experience and resources that count. We have invested heavily in new technology and our move would strengthen not weaken the UK construction effort

overseas. Kvaerner, which has been operating in the UK since 1989 (and has invested over £100m), made that clear when it made a presentation to Mr Needham last year and Kvaerner representatives joined his trade mission to India, for

Last year 60 per cent of our contracts were won overseas, bringing valuable work to the United Kingdom. That we

intend to grow. But Kvaerner wants to take on the two US glants in international construction and a combined Kvaerner-Amec team would be better equipped

to do that. Kyaerner has won contracts worth \$400m in the last three years - far bigger than Amec and made a profit.

If our bid succeeds, Kvaerner will have far more employees in the UK than in Norway and we shall operate our international effort from this

country. Mr Needham's appeal is ill-based as those concerned in government with the UK's major export effort - and inward investment – well understand.

Erik Tonseth, chief executive, PO Box 100 Skøyen,

Emu too complex for such certainty

From Sir John Nott. Sir, I do not think that Sir Michael Palliser, Sir Michael Butler and Sir David Hannay (Letters, December 14), three very distinguished former diplomats, are any better qualified to speak for the views of British business than Mr John Redwood, an elected member of parliament and a

former minister. Some humility might suggest that none of us knows the considered views of British business simply because the overwhelming majority of businessmen do not understand the issues, and regrettably many of them do

not wish to do so. The Food and Drink Federation, a very large constituent of British industry, has recently put to the Confederation of British Industry a series of immensely complex questions about European Monetary Union to which no expert, I suggest, can yet give an answer. The council of the CBI speaks only for itself.

However, what businessmen and leading politicians are qualified to ask is whether a parliamentary democracy would, for any length of time, tolerate the supremacy of an unelected European Central Bank, particularly if falling activity levels set up What is going to let the steam out of the kettle without

exchange rates?
The viability of Emu will not be based on meeting convergence criteria at a single moment of entry and then keeping economies aligned by institutional fines and other pressures; it will be dependent on whether the diverse cultures, traditions and attitudes of the peoples of Europe can be constrained by a superimposed monetary

As economic secretary to the Treasury, I remember what happened to the Snake in 1972; as a merchant banker, I experienced the UK's final months in the ERM and, now as a businessman, I watch the

death throes of the franc fort.
Sir Michael, I admire your
passionate belief in European integration. But the voters of Europe, who include its businessmen, do not share your certainties, and they are

John Nott, 32 Hampstead High Street. London NW3 1QD, UK

From Mr Nicholas Berry. Sir, The three eminent business knights who wrote to you about a single European currency (Letters, December 14) ignore the key point. Singlecurrency implies a single taxation system, and therefore a single European government. Do they think so much of : Britain's own bureaucracy that they want to add a second one on top?

Nicholas Berry, chairman, Stancroft Trust, Bride House, 20 Bride Lane, London EC4Y 8DX, UK

Flaws in Shell's approach on Nigeria

From Mr Danyal Sattar, Dr Simon Zadek and Mr John Elkington. Sir, As your "Trading with the 'parlahs' " article (FT

Exporter, December 14) shows engagement with "difficult markets" such as Nigeria, is an issue that will not go away for business. Shell recently attempted to redress the record on its real and perceived environmental and social performance by setting out the facts as it sees them in a newspaper advertisement campaign. As an exercise in corporate social reporting it was deeply flawed. It seems to us that, to

establish the facts of Shell's commitments and performance, two principles need to be observed. First,

the company's stakeholders (directors, employees, local environmental and social non-governmental organisations), need to be part of the process which considers and evaluates the evidence. Given the pressing nature of the Nigerian issues, these would clearly need to be central, but a balanced assessment would need to cover other areas too.

affected by Shell's activities.

any such process would need to be externally validated. This would help rebuild the company's credibility in respect of the information it provides. We see the continued problems with Shell's environmental audit process in Nigeria as evidence that the

Second, we would suggest

lack of independent external validation of such processes can undermine both internal and external confidence. We believe there is a growing focus on the "triple bottom line" of sustainable development: economic prosperity, environmental protection and social equity. A company of the size and significance of Shell surely owes it to its shareholders to ensure that its auditing and reporting activities address all three items with full transparency. Danyal Sattar, UK Social Investment Forum. Simon Zadek, New Economics Foundation, John Elkington, Sustain

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Making a reality of Emu

If there were any residual doubts—ity of countries qualify to join in about the political will behind the 1999. Whatever Mr Major's European Union's plans for a single currency, they should have been dispelled by the conclusions of the Madrid summit. Whatever the practical obstacles facing the plan for economic and monetary union, EU leaders offered a con-vincing display of their determination to make a reality of the uninspiringly-named "Euro" before the end of the century.

Mr Jacques Santer's comment that the EU is now committed "irreversibly" to Emu was echoed by Chancellor Helmut Rohl and President Jacques Chirac. It should not be forgotten that a single currency remains conditional on France's ability to meet the economic convergence criteria for participation. And a victory for Mr Chirac in his battle with France's public sector trade unions is a necessary but not a sufficient condition. Mr John Major, however, found himself alone at the summit in voicing serious concerns about the wisdom of the whole project.

Under the timetable agreed in Madrid, EU leaders will decide in early 1998 (most probably March) which member states fulfil the conditions for joining. Emu will begin on January I 1999, with the irrevocable locking of exchange rates and the transfer of interest rate and foreign exchange policy to a European central bank. Gov-ernments will begin immediately to issue public debt in the new currency. By January 2002 at the latest, Euro banknotes and coins will start to circulate. pletely withdrawn six months

The EU leaders re-affirmed that there would be no dilution of the convergence criteria agreed at Maastricht. They also gave a fair wind to Germany's demand that the participants must agree in advance to the terms of a stability pact which would ensure firm control of budget deficits.

During the next few months, the EII's finance ministers will examine in detail the relationship between the "ins" and "outs" if, as seems likely, only a modest minormotives, he won some support for the view that the existence of a hard-currency inner core would underwine the EU's stability and coherence unless the relationship is properly defined.

The UK prime minister, however, is likely to be uncomfortable with the answer favoured by other EU governments. Most appear to back the Commission's suggestion that those outside the Emu bloc should link their currencies to the Euro though a mechanism mod-elled on the present ERM.

Second decision

In the Commission's view, that would remove the risk of competitive devaluations and resultant pressure on the single market. And if the UK and Denmark were to exercise their opt-outs from a single currency, they would face a second decision. They could join Smu aspirants (in the latest jargon, "pre-ins") like Italy and Spain in the new exchange rate system, or allow their currencies to float without constraint.

Sensibly, Mr Major responded to such prospective dilemmas by saying that the UK will reserve its position until 1998. In doing so, he has rightly rejected the demands of his party's Euro-sceptics that he should rule out now sterling's participation in the first phase of Emu. Instead the Treasury and Bank of England will continue to be engaged actively in the techni-cal preparations for Emu.

For all the enthusiasm at Madrid, there is little sign yet that a single currency has caught the imagination of Europe's citizens. Instead, the French fear the threat to their welfare system, the Germans the loss of their currency. The summit did little to dispel the impression that the grand visions of Mr Kohl and Mr Chirac remain some distance from the preoccupations of their electorates.

The Commission plans an extensive publicity campaign to promote the benefits of Emu. But if it now seems more likely than not that a single currency will be created by the turn of the century, its success will turn ultimately on

Media, moguls and markets

How should ownership of media be regulated when the industry is in a state of permanent revolution? The UK government's Broad casting Bill, published on Friday, has done a thoughtful job in tack ling that question. But in accepting media groups' proposition that size is necessary for success in the global media business, it has been more generous than strictly neces-

sary to their ambitions. The government rightly starts from the principle that there is a public interest in the diversity of ownership and variety of content in this industry. The bill sets out to reconcile that interest with the desire of media groups to grow

In parts, it has done a good job. It has made rules on ownership of different media simpler and more flexible. If passed, it will undoubtedly give rise to takeovers, some controversial. But the bill recognises that the UK is a relatively small country, and not much consolidation is possible without sac-

rifice of diversity. For instance, in replacing the two-licence limit on ITV owner ship with a ceiling of 15 per cent of total television audience, the bill would almost certainly mean the end of independence for smaller ITV companies. Yet the new requirement rightly recognises that the means of distribu tion - terrestrial, cable or satellite is becoming irrelevant. In treat ing television as a single market for the first time, it may have provided a tighter check in the long run than previous rules.

Important failings

However, there are important failings. In particular, the government has accepted the questionable argument that in media, companies need a large domestic base in order to compete internationally. It also appears to believe that there is great synergy between different types of media, an argument often at odds with the performance of acquisitive media

That has led it to relax the restrictions on owning different types of media within the UK and within one region more than may have been necessary. It also seems to equate competitiveness with size, a definition with which

neither customers nor sharehold ers are likely to agree, and to assume that only large companies have the ability to finance invest-

cautious about finance for new technology, the bill proposes relatively relaxed ownership rules for digital terrestrial broadcasting: a single private company can own three of the three-and-a-half available multiplexes (blocks of digital channel capacity). The bill is right to take a cool view of the prosnects of digital terrestrial services in marked contrast to the Department of National Heritage's gushing enthusiasm a few months ago. But the rules on this point may

Greatest problem

Perhaps the greatest problem with the bill is that it may have stored up future headaches for the competition authorities. After all, its aim is simply to protect diversity; it leaves the task of creating a competitive market to competi-

ties are to grapple with questions of abuse of market power, fair trading and predatory pricing. they will have to answer notoriously difficult questions which the bill has not addressed, such as defining the market in question. These are issues which have stalled European Union discussions on media ownership, and it is therefore somewhat disingenuous for ministers to say that they could not wait for EU talks to conclude before bringing out their bill, The bill also leaves other loose ends, such as the row about Channel 4's funding, and the frag-

duction sector. The attempt to strengthen guidelines on sex, violence and decency on television, in the same breath as heralding a new age in media, has a similar air of wishful

thinking. This unfinished business means that the bill is unlikely to take the UK a long way through the multi-media revolution. But it is a realistic response to changes now under way. Less ambitious than earlier legislation in attempting to predict the future, it is also much more satisfactory.



The FT Interview · Eddie George

Reflections on a rough year

The governor of the Bank of England tells

been a rough year for Its advice on interest rates was rejected for chancellor; it has been accused of negligence over the collapse of Barings bank; it has suffered a slide in staff morale; and it has lost a deputy governor, who quit after press disclosures about his private life.

Despite such an eventful 12 months, the governor, Eddie George, is in a relaxed and upbeat mood. In his office last week where the festive season is cele-brated in a strand of green tinsel across the top of his Reuters termi-nals – the governor conceded that 1995 had brought a bumpy ride. "But I think we end the year in a stronger position than we started

It is certainly going out in style. Last week, the governor agreed with the chancellor that British interest rates should fall for the first time in nearly two years. He said this made sense because

good news on costs and prices plus evidence of weakness in economic activity - meant it was now more likely than not that the gov-ernment would hit its target for underlying inflation of 2.5 per cent or below in two years' time.

"We have had tremendous suc-cess keeping inflation down, not-withstanding being dealt what was a pretty difficult hand", Mr George said. Rises in interest rates over the past 15 months had ensured that sures from ov not been allowed to have a knock-on effect at home.

"Now we face another kind of external difficulty - the slowdown on the continent which is a big factor in the concerns about a slowdown here." He said weakening export demand had left companies with excessive stocks of unsold goods to dispose of. "For a quarter or two, anyway, activity might be softer than it would have been otherwise. These circumstances are not the worst I've known but neither are they the best." The governor said the short-term

Robert Chote that, in spite of short-term uncertainties, it is now more likely than not that the government will hit its inflation target tended to take risks on the side of

outlook was still uncertain. There were good reasons to expect con-sumer spending to pick up next year, and the slowdown in Europe was also likely to prove temporary. But, while manufacturers were spending happily on plant and machinery, there was a downswing in utility investment and still an overhang of industrial and commercial property.

The governor was quick to emphasise that last week's rate cut was not an attempt to arrest a slowdown in the economy over the winter months.

Similarly, the chancellor's Budget prediction of a strong rebound in activity next year had not had much influence on the Bank's advice. Said Mr George: "The purpose of the quarter-point rate cut was not to try to sustain activity in the short run, but reflected the fact that the likelihood of knock-on inflationary pressure had reduced".

The Bank had no growth target, explicit or otherwise.

Despite the chancellor's rejection of his request for a rise in base rates in May, Mr George said the past year showed that the monetar policy framework was working well and that people were learning what an uncertain process it was. We have been moving in steps of

sensible size rather than, as so often in the past, responding to excitements in the markets - arriving in the morning seeing an unset, ringing the Treasury to say we have a problem, having a meeting and so on. Things are on a much stabler

But it was essential to remain cautious. The persistent decline in the British economy in relative terms has been because we have sustaining activity in the short run. We have less flexibility than, say, the Bundesbank, which has a much better established track record of getting it right. If we had that sort of credibility, then we would have more scope to keep closer to the

r George told MPs recently that the chancellor's decision to reject his advice in May had damaged the credibility of anti-inflation policy, weakening the pound and raising gilt yields. But the gov-ernor also believes that such differences are inevitable and that May's

little spat was only "technical". "This was a disagreement about half a per cent at what turned out to be at the top, at least temporar-

ily, of the interest rate cycle". This phrasing suggested that the governor had not ruled out the need to reverse last week's decision, although he hurriedly insisted that his comment "ought not to be taken as a prediction about where we go

know" Mr George said that even though there had been costs for the economy in the wake of May's decision things had turned out fortunately with the revival in the dollar averting a serious assault on the pound. "I'm thrilled about that. I genuinely am. I would much rather that we were perceived to get it wrong than

for things actually to go wrong."

Media comment on interest rate policy during 1995 has centred on the personal relationship between the chancellor and the governor. Mr with each protagonist fighting to score points off the other. But the governor said he had been glad to have Mr Clarke on the other side of the net.

"I think I have been fortunate, particularly in the early phase of policy transparency, that the chan-cellor has self-confidence - it is not an arrogance, but he is very brave, I think. He is not jumpy and ner-Mr George said that it had been

enormously helpful that the chan-cellor was comfortable stating that he disagreed with him - and vice versa. "There has been no personal animosity or anger in the relationship between us. It is entirely natural to disagree."

May's disagreement signalled one of the most awkward periods of 1995

for the Bank, but just as difficult was the collapse of Barings at the hands of the trader Nick Lesson. This cast a shadow on the Bank's reputation as a regulator.

Barings was a very fine financial institution and to see it destroyed in that way was a very great upset." the Bank's handling of the situation, arguing that in the long term it would encourage more activity in London. But there were lessons to be learned. Mr George said it was assurance function' so we are continually sweeping across to ensure we have consistently high standards across the supervisory divi-

In terms of regulation within the UK, the governor expressed doubts about the idea which is gaining some support in the City of bringing together the Securities and

If you had a superstore it would have to have an awful lot of departments. I don't know whether you could co-ordinate departments any-more easily than you could improve regulators."

The challenges of Barings and the handling of monetary policy have Bank's staff, which have come on top of a painful management reorganisation. "There is no question that there is a morale problem". Mr George conceded.

He said it had been important to recognise that most Bank staff did not spend their whole career with the organisation - even if the resulting changes meant that some staff no longer fitted in. "In trying to acknowledge that reality, we gave the impression to the staff that we had changed from a paternalis-tic institution to a hire-and-fire institution. It will take us quite a while to convey the right mes-

Bedding in the Bank's new structure and rebuilding confidence within the organisation is the primary responsibility of Howard Davies, who joined the Bank as deputy governor following the sudden departure of Rupert Pennant-Rea. But it will be an important concern on Mr George's mind too.

It is difficult to imagine that 1996 could be more eventful for the Bank than 1995, but there is plenty of cians that monetary policy would be safe in the Bank's hands and that its responsibility for supervision of the financial system should not be taken elsewhere.

Mr George knows that the stakes are high and is ready for the task. We want to preserve one Bank. That is absolutely agreed."

Meanwhile his annual skiing holiday, so rudely interrupted this year by the Barings crisis, is scheduled for next February. He leaves the impression that it will take an earthquake or two to bring him back early this time.

BSERVER

Talisman star-gazing

■ Stars and oil wells may seem a study in contrasts. But Jim Buckee, chief executive of But if the competition authori-Calgary-based Talisman Energy has managed to put his Oxford astrophysics to good use in the oil

and gas busine Talisman is proving to be one of the hungrier acquisition merchants in its sector in Canada. Last Friday, it unveiled a friendly £131m bid for Goal Petroleum, one of the biggest independent North Sea producers. Just over a year ago, it gobbled up Bow Valley Energy, a mid-sized Canadian producer formerly controlled by British Gas. None of this seemed likely when

British-born Buckee, now 49. arrived in Calgary four years ago to head the Canadian subsidiary of ile state of the independent pro-British Petroleum. His mandate was to get rid of its mining business and focus on oil and gas exploration, and production, Less than a year later, BP sold its 57 per cent stake in a public share

> One condition of the deal was that Buckee, who had spent two decades working for big integrated oil companies, would remain in charge of the newly-independent outlit. He changed its name to Talisman Energy, and hasn't looked back. Buckee recognised that virtually

explain the flow of matter in stars and oil reservoirs - and by his mid 20s, he had sensed that the energy business might be the more glamorous of the two pursuits.

"If you're a theoretical astrophysicist, you get a pencil and a blank sheet of paper, and that's about it." says the man at the

Sandoz keeps fit Let's trust it is third time bucky at Sandoz, the Swiss health and

nutrition products group. Alexandre Jetzer, who has just been named chief executive officer. is the third Sandoz manager to hold the title since chairman Marc Moret, 72, relinquished it in 1992 in what was seen - apparently wrongly - as a first step towards the ereat man's retirement.

The first, Daniel Wagnière, was demoted to technology director just a year after his appointment. He was replaced by Rolf Schweizer, a veteran of the group's industrial chemicals division. Schweizer, who led the chemicals division into. independence as Clariant last summer, will resign from Sandoz on January 1 and will be replaced by Jetzer, now beed of Sandoz operations in the US

And what of Moret's retirement? "That is up to the board and Mr. Moret to decide when they see fit," says Raymund Breu, group finance director. Breu cautions that

interpreted as an indication that he will be Moret's successor. Well no, that might indeed be ashade premature.

Silver lining

Those poor Parisians, planned by terrorist attacks, then public transport strikes, for months. But the combination of a heavy police presence and the lack of suburban rail links between the impoverished suburbs and the city centre has at least done something cent in November when compared with the same month last year.

Then again, maybe France's delinguents somehow count themselves as part of the public sector, and are simply on strike

You're fired

So much for the season of goodwill. More than half (55 per cent) of employees in the UK would categorise their bosses as Scrooges rather than as Santas, according to a survey conducted by international management consultanta Proudfoot

The most ubiquitous Scrooge like quality recognised by those questioned was a failure to pay dequately. An unwillingness to provide adequate promotional

Bosses might also perhaps be interested to know that 27 per cent of their subordinates thought of them as doukeys (rather than wisemen, shepherds or innkeepers) - in other words, stubborn and resistant to change.

No surprise that Scottish respondents were particularly inclined to identify a Scrooge in their boss. US employees, meanwhile, are happier campers, with over 52 per cent of those partaking in a similar survey considering their employers as

And Observer's bosses, how do they rate? Oh, Santas to a man,

Get a blast ■ Hot news - forgive the pun -

by using doses of radiation strong enough to kill 250 people, they can make bad wine taste good and cheap whisky smooth. Hiroshi Watanabe, joint head of research at the Japan Atomic Power Company's research facilities in Takasaki, just north of Tokyo, says. If you irradiate good wine or whisky, fliey taste terrible. But if you expose had wine and cheap whisky to gamma rays, they taste much better."

Seems a high risk strategy to Observer, who prefers the tried and trusted method of making cheap booze taste better by drinking

Financial Times

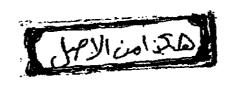
100 years ago

The Shipyards' Dispute

Our Glasgow correspondent telegraphed last night: The Civde engineers' strike entered tonight into its seventh week, and both sides are as fully determined to carry on the strife as ever. The masters have gone as fer as they. can, and this evening at a meeting of their committee the proposal was discussed as to --whether they should attend the adjourned joint conference as it was put forward that no good results could be expected in face of the uncompromising estitude Of the men.

I am reassured tonight that the Belfast and Clyde compact lasts only until 31st December. although the understanding may be renewed. Today is regarded as being the blackest in the dispute and it is hinted the masters may be forced to withdraw the offer of one farthing premised on and February, as in this promise the calculation would have been based on the fact that the men would have been six weeks atwork at the lesser wage. I am also assured that if the Clyde and Belfast strike is carried on well into Jamuary, the North of England men will be locked out. The masters til now have

inclined to stand and watch, but the appearances now point to their turning the aggressors.



FINANCIAL TIMES

Monday December 18 1995



Summit leaders pledge to treat applicants equally

Partial success for Kohl over EU enlargement

David White in Madrid

18

Germany has won a partial victory in its drive to speed up the European Union's enlargement negotiations with central and eastern European countries.

After a two-day summit in Madrid, EU leaders pledged to treat all applicant countries on an equal footing, holding out the prospect of launching accession negotiations around the beginning of 1998.

Central and eastern European leaders attending the meeting on Saturday expressed satisfaction with the formula, though some appeared disappointed by its

The summit declaration says the EU "hopes" to begin accession negotiations with the former communist countries in parallel with Cyprus and Malta. These two have already won a pledge from the EU to open membership talks six months after the end of next year's intergovernmental conference, most likely to be wrapped up in mid-1997.

Enlargement was one of the

mit, which also agreed a blueprint for the launch of a single European currency on January 1 1999, to be called the Euro.

Chancellor Helmut Kohl of Germany described the summit as "extraordinarily successful". The monetary union blueprint bore the German stamp but the outcome on eastern enlargement was less conclusive.

Mr Kohl pushed EU partners to concede in principle that only a limited number of eastern Europeans could join the first wave of new members. Germany's priority was early

membership for the Czech Repub-lic, Hungary and Poland, but France and the Nordic countries insisted all applicants should be treated equally.

The EU compromise is to try to establish objective criteria for countries qualifying for membership. The European Commission will present an opinion on individual candidacies after the end of the ICC, and it will be up to EU leaders to decide which countries are ready for full-scale negotiations. Eight countries have

gary, Poland, Romania, Slovakia. Estonia, Latvia, Lithuania, with Bulgaria applying on Saturday. The Czech Republic is expected to request membership in the

Mr John Major, British prime minister, warned of the need to confront the cost implications of taking in poor countries from eastern Europe. "We will bust the bank unless we have quite significant policy reform [such as] the Common Agricultural Policy." Several leaders stressed that

enlargement could only proceed if the EU agreed an adequate reform of its institutions, including more majority voting, to pre-vent the union being paralysed.

The summit agreed the IGC would be launched formally at a heads of government meeting in Turin on March 29, but President Jacques Chirac of France indicated he intended to boycott it because of the Italian vote in the United Nations against France's resumption of nuclear tests.

Minimum done on Emu, Page 2 Editorial Comment, Page 17

Old rivals to meet in European football finals

Germany and Italy, two of Europe's oldest football rivals, were yesterday drawn in the same group for the first round of

ships in England. The draw pits them against the Czech Republic and Russia in a 16-country competition which now includes more European countries than ever before in its

40-year history. England and Scotland, rivals on the football field for over 100 years, were also drawn together and will meet for the first time since 1989 when the annual fix-ture was abandoned because of persistent hooliganism.

Over 250,000 foreign visitors are expected for what will be the largest football competition England has hosted since 1966 when the national team won the World Cup.

The draw will be greeted by the eight English cities hosting the tournament with a mixture of apprehension and eager anticipa-tion. The eight cities - London, Manchester, Birmingham, Leeds, Sheffield, Newcastle, Nottingham and Liverpool - are looking forward to a substantial increase in tourism revenues and will be using the tournament to promote themselves worldwide.

Manchester, Liverpool and Newcastle expect about 40,000 visitors each during the monthlong tournament, while the British Tourist Authority hopes England will earn about \$400m in

The revenue from the competition might not be as great as expected. When Italy hosted the 1990 World Cup finals, tourism earnings rose only fractionally as visitors stayed away to avoid the football crowds.

Police forces will be girding themselves for possible trouble, though the Association of Chief Police Officers and the Football Association say they are hoping for a "festival of great football".

The football unit of the National Criminal Intelligence Service says that it has been planning for 18 months how to handle fans inside and outside grounds. It intends to set up an intelligence centre where police from each country will co-ordinate operations. The NCIS also s each nations provide police "spotters". In England, spotters travel openly with fans and have been credited

The groups for the first round are: A - England, Switzerland, the Netherlands, Scotland: B Spain, Bulgaria, Romania, C - Germany, Czech Republic, Italy, Russia; D - Denmark, Portugal, Turkey, Croatia. Additional reporting by Simon Kuper, Chris Tighe and Ian

Hamilton Fazey Gamesmanship in 1995, Page 14

Poll confirms dominance of **Austria's Social Democrats**

By Eric Frey and

Austria's conservative People's party, which provoked the country's second national elections in 14 months, has failed in its bid to displace the Social Democrats as the country's dominant political

The far-right Freedom party was becalmed at just above 22 per cent, the first time that it has lost ground in a national election since the charismatic Mr Jörg Haider took over a decade ago.

The Social Democrats, who campaigned on a promise to preserve the country's generous social benefits, raised their vote share from 34.9 per cent to 38.3 per cent. The People's party, which called for sharp cuts in government spending, edged ahead from 27.7 per cent to 28.3

how Austria's new government will tackle the problem of the looning pa

The outcome leaves uncertain

Continued from Page 1

Democrat-People's party coalition, although with Mr Franz Vranitzky, the Social Democrat chancellor, in a strengthened position. Mr Vranitzky said he would insist on changes in both the composition of the coalition and the content of its pro-

The coalition collapsed in October over negotiations on the 1996 budget when Mr Wolfgang Schüssel, the People's party leader, felt the Social Democrats were more interested in raising taxes than cutting spending.

The result is an embarrassing setback for Mr Schüssel, who took over the leadership of the People's party last April and hoped to take advantage of the first rise in his party's poll standings in 13 years.

He ran a strong campaign, but raised anxiety among liberalminded Austrians by refusing to rule out a coalition with Mr Haider's Freedom party.

The result almost certainly only if, concerning the budget

The latest moves came after further demonstrations in Paris

and around France over the

weekend in opposition to the

government's plans for reform.

Police estimated 600,000 people

took to the streets on Saturday. Union organisers said the figure

FT WEATHER GUIDE

was nearer 2m.

put more on the table than in

The Social Democrats achieved their gains mainly at the expense of the marginal Greens and Liberals. The Greens' vote share fell from 7.3 per cent to 4.6 per cent, the Liberals' share from 6 per cent to 5.3 per cent. Mrs Madeleine Petrovic, the Greens leader, immediately offered to resign.

Austria uses proportional voting, so the shares will be closely reflected in the distribution of

the 183 parliamentary seats. For the Social Democrats, the victory at the polls could prove to be a poisoned chalice. The budget deficit is now approaching 6 per cent of gross domestic product, and economists believe both deep spending cuts and hefty tax increases will be needed to bring it down to the 3 per cent level required for participating in a common European currency.

Mr Haider rejected claims that his popularity had peaked. "Once ing to rejoin the coalition, but not keep the promises he made, we will bounce back," he said.

urban railways and inter-city

rail systems began to operate fol-

lowing votes in local meetings of

strikers to go back to work.

with helping reduce trouble. Juppé offers to discuss reduction in hours However, there were signs that public transport would be resum-France: ing almost normal levels during this week, as large proportions of the Paris metro network, sub-

public sector would not be

Europe today

several key areas of social secu-

rity reform, stressing that the

age of retirement and methods of

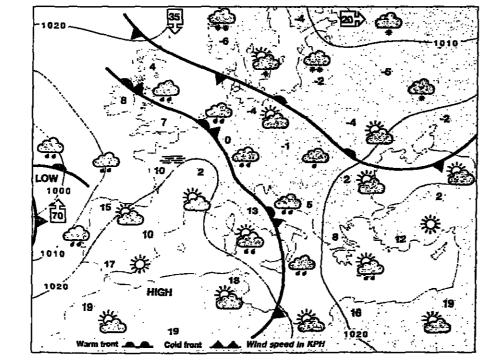
calculating pensions for the

range of special regimes in the

Cloud and rain will linger from the Benelux towards Italy. There will be rain and patchy fog in the UK and northern France. Elsewhere in France it will remain dry with temperatures ranging between 7C-15C. Spain will continue to be dry but cloud from the west will increase Portugal will be mild with occasional showers. Temperatures in southern Scandanavia will start to decrease

Five-day forecast

A frontal zone will linger from southern parts of the UK towards central Europe. North of this front freezing conditions will prevail. There will be heavy rain over Central Europe with snow in some regions. Temperatures will range between -3C and +8C. Further south, around the Mediterranean, conditions will be mild



TODAY'S TEMPERATURES

Caracas Cardifi Casabla Chicago Cologne Dakar Dallas Delhi Dubei Dubei cloudy
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cloudy
cloudy
rain
fair
rain
sun
shower
cloudy
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Lufthansa

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THE LEX COLUMN

Disconnecting Vodafone

Vodafone should consider demerging itself again. The mobile communications group pioneered this method of unlocking shareholder value in Britain when it split off from Racal Electronics in 1988. Vodafone should now contemplate demerging its UK and international operations as a way of reversing the recent sharp deterioration in its share price.

Vodafone's stock is suffering because investors are finally appreciating the toll competition is taking on its lucrative UK franchise. Though the UK mobile market is still growing rapidly, Vodafone's market share and tariffs are under pressure. But shareholders have not yet recognised the hidden value of Vodafone's vast international franchises. Though most are in a start-up phase, they will soon move smartly into profit. Analysts say the international portfolio would be worth more than £2bn if valued on a standalone basis. Subtracting that from Vodafone's £6.5bn market capitalisation leaves less than £4.5bn for the core UK business - valuing it, at best, on a market multiple. That looks stingy since the UK business is immensely cash-generative and its profits are still likely to grow, albeit at a more subdued rate than in the past. Splitting the two businesses would encourage investors to focus on their respective values - just as the original Racal demerger did. One potential snag is that, while the UK operations are cash-generative, the international franchises are absorbing funds. But that could easily be overcome by load-

Olivetti

cash as a dowry.

Mr Carlo De Benedetti has lived up to his nickname of l'ingegnere by engineering another miraculous escape for his computer to telecommunications business Olivetti. Against all odds, the balk of Olivetti's L2,257bn (\$1.4bn) rights issue has gone to foreign institutions rather than underwriters. This removes fears that a large chunk would end up in the hands of unwilling investors, creating a massive overhang Moreover, given a predominance of US shareholders, Olivetti's management is finally under pressure to deliver shareholder value.

ing Vodafone UK up with debt and giving Vodafone International the

Mr De Benedetti's success stems from a strategy of persuading investors to ignore Olivetti's current business and look to a future in telecoms. This was shrewd. The mobile teleShare price relative to the FT-SE-A All-Share Index

phone business. Omnitel, will make no meaningful contribution until 1998, but it is an attractive business with substantial value. Meanwhile, Olivetti's stake in an embryonic competi-

tor to Stet in Italian fixed line tele-phony carries significant potential. Nonetheless, this will probably not be Olivetti's last cash call. Any delays in restructuring the personal computers business, for example through union pressure, would be fatal. A one per cent fall in margins would cost L100bn, and closure charges could require another rights issue. Even if computers is successfully turned around, funding will be needed for the telecoms businesses. Of course, a larger telecoms company might be tempted to step in. But Mr De Benedetti would be a formidable opponent, even with his stake diluted to just 16

Deutsche Telekom

Who says derivatives are divorced from the real economy? They are likely to facilitate Deutsche Telekom's upcoming privatisation, the secondlargest ever arranged. An employee stock ownership programme arranged by Union Bank of Switzerland has been structured, using derivatives, to allow Deutsche Telekom employees to benefit from five times any gains in the share price, while protecting them from any decline. Unlike some previ-ous deals, employees will benefit from the full extent of any share price appreciation during the six-year

This should help bolster demand for the deal and help to compensate for the lack of a domestic investor base in Germany and the current glut of telecom privatisations. Similar features

year guarantee against losses on Rep sol, the Spanish oil company, helped entice retail investors who had been badly burnt in previous offerings.

MA

More importantly, the programme is a sweetener for Deutsche Telekom employees, for whom privatisation signais the loss of more than 40,000 jobs in the next five years. This type of scheme is likely to gain currency: such sweeteners could help pave the way for the rationalisation of many state-owned European companies, which, as recent events in France have illustrated, can meet strong resistance. In fact it has already been used in France, for example by Rhone-Ponienc. The downside protection, rather than the positive effect of the gearing. has unfortunately proved necessary in most of France's privatisations.

Corporate governance

Last week's decisions by the rail, post and BT pension fund trustees to publish voting guidelines should give some badly needed focus to the UK corporate governance debate. Ulti-mately, only big shareholders have the power to change the way companies are run. It would help everyone to know how some of Britain's higgest shareholders think they should use

Publishing sets of principles should spark healthy debate. It would make institutions dig guidelines out of bottom drawers and ask whether they are still right. Most importantly, it would mean they are more likely to be put into effect. A glance at some of the rail pension fund's principles illustrates the point. It likes bonuses paid in shares, not cash. And it thinks voting against reappointment of remuneration committee members is the best sanction against pay excesses.

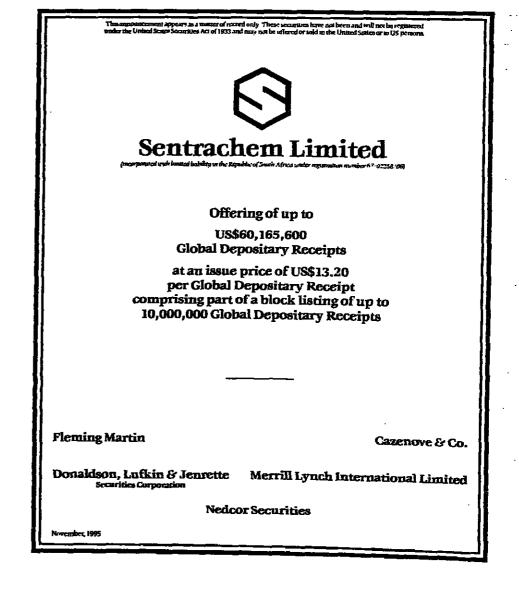
Principles like these may be clear and thoughtful; the problem is few follow them. But once they have been published, they will have to be held to if institutions fail to vote in line with them, they will be asked why not. The accountability of institutions, as much as the companies they invest in, will be sharpened.

There are, though, limits to this process. The rail fund itself thinks its guidelines focus too much on issues such as pay and too little on corporate performance. This is probably inevitable. Shareholders' most important responsibilities - to exercise judgment over corporate strategy and management competence - cannot be enshrined in one-dimensional rules.

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Monday December 18 1995

OTHE FINANCIAL TIMES LIMITED 1995

Kleinwort Benson

We're focused.

Mamber of the Dresdner Bank Group.

MARKETS



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GLOBAL INVESTOR Looking back on this year non-American investors are acknowledged to have got Wall Street wrong while many Americans appear to have got it right for the wrong reasons. So many people were putting money on a further increase in interest rates that, in the event, falled to



STEPHANIE FLANDERS: ECONOMICS NOTEBOOK The surge in spending over the Christmas and new year sales period may be the lifeblood of the retailing industry, but for economists it is an annoying 'seasonal fluctuation" and they will do all they can to adjust it out of the statistics. Page 22

BONDS:

European Monetary Union presents problems in capital markets, particularly the European Commission's plan to convert bonds and other long-term financial contracts denominated in Ecu into the new currency, the Euro. Page 24

Investors in London seem to have started winding down for the Christmas holidays. At least they can look back on 1995 with the Footsie nearly 19 per cent ahead. In New York, attention this week will focus on tomorrow's meeting of the Federal Reserve's open market committee. Page 25

INTERNATIONAL OFFERINGS: The World Bank is drawing up a list of guidelines for countries to which it lends on how to appoint financial advisers for their privatisation programmes, giving it some control over how its money is spent. Page 25

EMERGING MARKETS:

The recession and financial uncertainty that plagued Mexico this year will continue in 1996. Its ability to stage a rapid economic recovery is impaired by a weak banking sector, dwindling personal incomes, and the prospect of continued high interest rates. Page 23

CURRENCIES:

Last week saw most leading European countries. with the exception of Italy, cut their rates. The question is whether the Fed will follow, Page 23

COMMODITIES: The International Cocoa Organisation meets this week to discuss production cuts and whether chocolate should be made with 100 per cent cocoe.

INTERNATIONAL COMPANIES:

Broken Hilli Proprietary, Australia's largest company, reported a net profit of A\$876m (US\$845m) in the six months to end-November, compared with A\$1.07bn a year ago. Page 20

Dresdner Bank plans to build up a leading position in US and global asset management through its \$300m purchase of RCM Capital Management of the US. The bank said the acquisition, agreed last week, will make it Europe's sixth largest asset management group, with total funds under management of \$170bn. Page 21

Base lending rates

London recent issues ... London share service . 30-81 Managed fund service 28-29 Money mankers _____24 New Int bond issues _____24

UK utility to name negotiator Bankers Trust to

By Robert Corzine in London

British Gas is to name a prominent businessman this week as its special negotiator in the growing dispute between the company and North Sea gas pro-ducers over £40bn (\$65bn) worth of long-term contracts. The sole function of the negoti-

ator, said to have extensive experience in solving business disputes, will be to handle the contracts issue, which is under-mining British Gas's finances. The negotiator, who will stay for the duration of the discusexecutives being formed to deal with the issue. It is headed by Mr

to support

talks last

By Ronald van de Krol

plan carry on.

Fokker while

Deutsche Aerospace of Germany

is prepared to continue provid-

ing financial guarantees to Fok-ker, its troubled Dutch aircraft

unit, as long as talks with the

Dutch government on a rescue

The statement averted the pos-

sibility of Fokker being rele-

gated to the non-official section

of the Amsterdam stock

exchange at the end of 1995,

when the German parent compa-

ny's original guarantees had

been due to expire. It was also designed to allay fears that sup-

pliers and employees might not be paid if Dasa and the Dutch

government fail to reach agree-

ment before the start of 1996.
The Amsterdam Stock

Exchange said it would retain Fokker's listing "for the time being" in the light of the Dasa statement. On Friday nervous-ness about Fokker's financial.

health after December 31 caused

its shares to fall more than 13

After meeting stock exchange officials, Fokker said it would be

after the end of the year by

entering into commitments on

the basis and within the scope of authorisations granted by Dasa".

These would last "as long as the negotiations with the Dutch gov-

ernment have not been termi-

nated by the government or Dasa, and Dasa has not officially

able to "continue its busin

per cent to F1 7.20.

British Gas bolsters team to settle dispute with North Sea producers

executive responsibility for resolving the dispute.

The company says the "take-orpay contracts should be renego-tiated because they are a legacy of the monopoly era. The contracts require the company to buy gas - at prices higher than current levels - even though the advent of competition in indus-trial and commercial supply means it no longer has a market in which to sell it all. Last month British Gas was

director, who has assumed full £520m value of gas which it paid executive responsibility for for this year but did not use. Its position on renegotiation is supported by the government, which is keen to see an "industrial solution" emerge that would not require it to intervene directly. The producers, which include

some of the largest oil and gas groups in the world, have so far opposed any renegotiations. They say any action which undermined the value of the contracts would jeopardise the interests of

the issue between British Gas and some producers. But British Gas says it is not going to press for formal renegotiations until February, when it intends to cre-ate a trading subsidiary into which it will transfer all the

"take-or-pay" contracts.
Once the new trading company has been established, British Gas intends "to turn up the wick" on the contracts issue and bring greater pressure to bear on pro-ducers. "We want to get under their skin," said one senior exec-

Company officials declined to say what measures they might take. "But there are lots of things we can do after February." said

Dasa agrees | M&S asks Greenbury to carry on as chairman

By William Lewis and Martin Dickson in London

Sir Richard Greenbury is to remain as chairman of Marks and Spencer, the UK's leading retail group, for at least three years, but no more than six. He became chairman of M&S in 1991 but said last week that he would retire no later than 2001. at the age of 65.

"I have been asked by the board to stay on and have agreed to do so," said Sir Richard. "It will be for a minimum of three years but no longer than six." There had been speculation Sir Richard would step down as executive chairman of M&S, possibly to become non-executive.
Following his chairmanship of

the Greenbury committee on executive pay, which published its report in July, Sir Richard announced that he would not take on any more public posts. "There's a term of office and I think you can go on too long, and

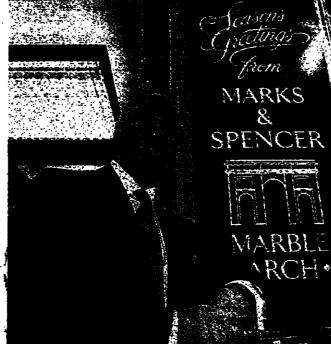
I don't want to do that, so I've agreed to go on until I'm 65." he said. "That means that everybody knows when I'm going, and everybody knows that over the next five years we'll have to find to me as chairman.' He said that M&S's non-executive directors were "heavily

M&S's executive share option scheme ends in 1997 and Sir Richard said the board's remuneration committee was discussing its A number of business leaders

have in recent weeks stated their

opposition to the implementation

announced the discontinuation of the Greenbury committee's The guarantees were provided have warned that the report is in in August after Fokker unveiled record first-half losses of Fi 651m daniger of being watered down, and have called for its full implementation by the stock exchange. (\$401m). Agreement on the rescue, has been hampered by Sir Richard said he did not believe that the report's main attempts by both Dasa and the Dutch government to get the other side to contribute as much recommendations were in danger of being abandoned. He said public companies were beginning to



Sir Richard Greenbury: 'Everybody knows when I'm going'

exchange deadline. "If you can show me at the end

of 1997 that nobody's listened, or nobody's done anything, well fine - give us a blasting. But for God's sake be patient," he said. He said that the stock exchange's recommendation that only bonus schemes running for longer than three years - against the one year recommended by nbury - should be put to shareholders did not represent a

significant change. Concerns have been expressed that companies will structure bonus plans for their executives at just under three years to avoid a vote by shareholders.

Pay consultants have also argued that the proposed defini-tion of bonus plans could lead to

shareholders voting on directors pensions at annual meetings. However, Sir Richard said: "We made it clear that we consider a long-term incentive bonus scheme, which you should take to the shareholders, is anything that gets shares. So whether it is an executive share option scheme, a long-term incentive or any kind of bonus scheme in which you give shares, you have got to go to the shareholders." The chairman speaks, Page 10; Lex, Page 18

sell Czech shares to western funds

By Nicholas Denton in London

Bankers Trust, the US bank which bought 40 per cent stakes in two large Czech voucher funds last week, has moved to sell the shares on to western institutional investors. It said it had been in contact with a dozen fund man-agers on a sale of the Czech

The two-stage transaction,

together with Stratton Group's recent deal with the Harvard Capital group of voucher funds, marks a development in the Czech Republic's mass privatisation programme. Ownership in large Czech companies has passed from the state to the Czech public, through their ownership of voucher funds, and now increasingly to western financial

The share deal, in which Bankers Trust is paying 6.7bn koruna (\$2.5bn) in notes due in 2000, is the largest single investment in eastern Europe's nascent stock markets. Bankers Trust is taking the shares on to its balance sheet before receiving indications of the price clients are prepared to pay for the shares.

The risk that Bankers Trust would be left with shareholdings in a declining Prague market is limited by the agreement with Ceska Sporitelna, the Czech bank which had held the stakes in the two voucher funds, Cesky SPIF and Vycosovy SPIF. At the end

of five years. Sporitelna has undertaken to take back the shares which Bankers Trust cannot sell, receiving shares rather than cash as redemption of the notes, and so cancel the payment. It is believed Bankers Trust will hedge its exposure to movements in the Czech exchange rate by taking a long position in koruna - in effect buying the currency. If the koruna appreciates, Bankers Trust will profit through the long hedge position, so offsetting the greater cost of redeeming the notes, which are denominated in koruna.

In a "bought deal" such as that between Bankers Trust and Sporitelna, bank and client dispense dure of a public offering or a private placement of shares.

These quick but risky bought deals play to the strength of institutions such as Rankers Trust and SBC Warburg which have the balance sheet strength and risk management skills to take a position and only later sell

Individual investors in the two voucher funds had used their holdings as collateral for loans from Sporitelna, the Czech Republic's largest savings bank. at a deep discount, many have defaulted on the debt and abandoned their voucher investments, leaving Sporitelna with

Investment fund poised for new management

By Richard Lapper in London

The contract to manage River and Mercantile Trust, one of the UK's oldest investment trusts, is to change hands this week.

Robert Fleming, the investment bank is favourite to take (\$316m) trust, although three including Foreign & Colonial and Jupiter Tyndall, are understood to be potential buyers.

The disposal signals a change of direction by River & Mercantile Investment Management (RMIM), now controlled by Mr John Beckwith, the property developer. Beckwith Asset Management, Mr Beckwith's investment management holding com-pany, acquired a 49.9 per cent

"Fund management

companies rated

providing the best

SBC Warburg as

pan-European

Research...".*

stake in RMDM last year and is expected soon to exercise an option to acquire full control.

It said yesterday the contracts to manage the four other trusts Extra Încome, Smaller Companies, American and Geared Capital - would also be sold "over the next month or so". To the five trusts managed funds worth about £347m at the beginning of this month.

Originally formed in 1881, the River and Mercantile Trust (RMT) has followed a conservative investment strategy, focusing on UK blue chip equities. RMIM, formed to manage RMT in 1985, specialises in managing split-capital investment trusts, which are divided up into two parts, one aimed at growth, the other at income.

This week: Company news

GRANADA/FORTE

A cold war brews over the festive season

With just over five weeks to go in Granada's £3.2bn (\$5bn) hostile bid for Forte, the UK's largest hotels group. the parties will have little respite over the festive period.

Forte is this week, possibly today, expected to announce the sale of its 72 White Hart hotels, for about £100m. Likely buyers are Oriel Leisure, a private company, and the management, led by Mr Paddy Mitchell, managing director.

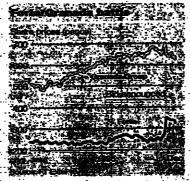
Also this week, the Council of

Forte, which safeguards Forte trust shares and could block the bid, is expected to go to the High Court. It is seeking clarification of its powers. The council holds just over half the voting rights but has never exercised its power to outvote shareholders.

The next important date is January 2 - the deadline for Forte to produce new financial information. By then it is expected to have revealed a new valuation figure for its hotels. As there was no mention of a dividend increase in its defence document issued on December 8, it might add this weapon to its armoury. It is also expected to have attacked Granada's record and plans by this date.

The real action could take place on January 9 – the last day for Granada. the UK TV and leisure company, to raise its offer. This is likely to be the decisive factor for many Forte shareholders. The closing date for the hid is January 23. However, if another bidder enters the fray, the 60-day . .. timetable will start afresh.

Last week, Granada stepped up its attack on Forte's management. It said ... The issue, however, will be decided



as possible.

it would raise Forte's ongoing profits by £100m in Granada's first full ancial year to October 1 1997, were the aconstition to succeed. Sir Rocco Forte, chairman of Forte, described the assertion as a transparent attempt to support

OTHER COMPANIES Amec poised to learn its fate

Granada's share price.

The deadline for one of the UK's more rancorous hostile bids closes at 1pm today when Amec, the UK construction and housebuilding

group; will learn if it is to remain Kvaemer, the Norwegian ship building and engineering group, has bid £380m (\$569m) for the UK group, which has had a poor profit

record in recent years. The bid battle has prompted Takeover Panel rebukes and threats of legal action as well as interventionby an indonesian government minister backing Amer's cause in a letter to Mr Michael Reselting, deputy UK prime minister.

on price and on whether Amec's signals of a profits recovery in 1996 will be accepted by its long suffering shareholders. The outcome is expected to be close. Kvåerner on Friday held a 26 per cent stake but several large shareholders appeared to be swinging behind the Amec

■ Howden Group: The UK industrial fans and tunnelling equipment manufacturer is expected to unveil first-half profits of about £12m comorrow. Although the company has seen a slowdown in the North American power engineering markets and increased competition in Germany, order intake is thought to remain robust and should enable it to offer a 1p interim dividend.

■ First Choice Holidays: Few analysts hold out much hope for the UK's third largest tour operator when it reports its full-year results tomorrow, especially after the company commented that the UK holiday market was flat and then that it had "fallen off a cliff".

In a profits warning in September, First Choice forecast pre-tax profits after exceptionals of "not less than film" for the year to the end of October, compared with £16.3m

Companies in this issue

previously. Analysts are taking the 11m figure as their guide, which gives negative earnings of 1.5p. First Choice is expected to report on bookings for the winter holiday market and early reservations for 1996 holidays.

■ CRA and RTZ: On Wednesday, at separate meetings in Melbourne and London, shareholders of Australia's CRA and the UK's RTZ will vote on a proposal which would see the two mining groups merge operationally, but retain separate share listings. CRA, in which RTZ holds a 49 per cent stake, said last week that the meetings would go ahead despite the Australian federal government's decision to attach conditions to its approval for the deal. But even if shareholders approve, this may not be the final word: the mining group conceded that it wants to talk to the government about the restrictions. and implementation of the 'dual-listed companies" deal could be delayed while this is happening.

■ Coal Investments: One of the announces interim results.

mining companies formed to take advantage of the break-up and privatisation of British Coal a year ago, is expected to report losses of about £10m on Thursday, when it

Fair comment.

SBC Warburg

Financial Times, December 5, 1995

*Source: Reuters study carried out by independent consultants

A DIVISION OF SWISS BANK CORPORATION

Conrad Ritblet

South China Group

first-half decline at Broken Hill

By Nikki Tait in Sydney

Confronted with slowing economies and a rising tax charge, Broken Hill Proprietary. Australia's largest company, reported a net profit of A\$876m (US\$650m) in the six months to end-November.

The figure compared with A\$1.07bn in the same period a year ago, but this was inflated by an abnormal profit of A\$234m resulting from the sale of the group's stake in Woodside Petroleum. If abnormal items were excluded in both years, BHP's profits were down 3 per cent to A\$811m.

Basic earnings per share fell from 54.5 cents last time to 50.7 cents excluding abnormals, and from 69.7 cents to 54.8 cents if abnormals were included Total operating revenue was 2.5 per cent higher at A\$9.42bn.

The weakest performance came from the oil division, where operating profits (excluding abnormals) fell 24.4 per cent to A\$198m. BHP blamed the downturn on "disappointing" results from the Dai Hung operation in Vietnam, lower sales volumes in Australia, and a smaller input from Hawaii. Mr John Prescott, BHP's chief executive, confirmed that

Share price relative to the All Ordinaries Index 130 110

negotiations to win a more attractive tax regime for Dai Hung, were continuing.

95

1994 .

On the steel side, earnings also fell, by 15.1 per cent to A\$292m. This was blamed on the slowing Australian economy. The minerals division saw an 11.1 per cent increase in profits to A\$540m because of higher iron ore shipments, increased copper concentrate production at the Ok Tedi mine in Papua New Guinea, and better prices for coal, iron and copper.

Income tax, excluding abnormals, rose A\$98m, partly reflecting the higher Australian corporate tax rate.

Oil side behind | Talisman braces its holdings for a North Sea storm-

Bernard Simon and Robert Corzine analyse the Canadian energy group's offer for Goal Petroleum

many others in the oil and gas business, believes that the North Sea is on the verge of much the same frenzy of asset swaps, sales and mergers that have reshaped western Canada's energy industry in recent

If he is right, the 49-year-old chief executive of Calgarybased Talisman Energy should be well placed to take advantage of the wheeling and dealing. Talisman is not only a creature of the shake-up in Canada, but will hold a useful hand of cards in the North Sea if its proposed friendly takeover of Goal Petroleum goes through.
Talisman has offered £131m

(\$202m) for Goal. The UK company's biggest shareholder. Norwich Union, has irrevocably agreed to throw its 29 per cent stake behind the bid. Mer-

"We're in a very strong position, but the deal is not yet done," Mr Buckee said from Calgary, between flying home from London on Friday afternoon and leaving on Saturday for a family holiday in

Talisman's bid has again

proved the popularity of the UK sector of the North Sea for international oil and gas companies, in spite of its maturity. Political stability and a fiscal regime that is among the best in the world are among the features most valued by North American companies with limited foreign experience.

Talisman, formerly BP Canada, has been one of western Canada's fastest-growing energy companies since the UK group unloaded its 57 per cent stake in a public offering in

cury Asset Management, with 16 per cent, will back Talisman unless a higher bid appears.

mid-1992. Market capitalisation year to 76,482 b/d. Gas volumes has soared from C\$530m to rose 46 per cent to 646m cubic C\$2.5bn (US\$1.82bn), making ft a day. Talisman one of Canada's biggest independent upstream oil

and gas producers. Goal would be Talisman's many years, following the acquisition of Encor, a mid-

The deals have left Talisman

But some analysts have

cooled toward Tahsman in the past year. The Bow Valley acquisition strained its backthird sizeable takeover in as office resources, such as accounting and land records. Mr Buckee says: "There was sized western Canadian pro- a deliberate pause of a year

C\$952m on Sept 30, and will

rise to C\$1.2bn after the Goal

Before [the Goal deal], we didn't have enough chips to trade,' Mr Buckee says

ducer, and last year's C\$1.8bn while we sorted that out." The purchase of Bow Valley 1995 capital spending budget Energy, in which British Gas had a 58 per cent interest.

with a strong, diversified portfolio of properties, mainly in western Canada, Indonesia and the North Sea. Liquids production surged by 74 per cent in the first nine months of this

was trimmed from C\$500m to C\$400m. An entirely new accounting system was adopted on November 1. Rapid growth has also would give Talisman the critiincreased Talisman's debt burcal mass it needs to trade den. Long-term debt stood at assets effectively in the North

acquisition. The debt-to-cashflow ratio will exceed 22, well above the industry average. Mr Buckee aims to bring the ratio down to 2.18 with a number of asset sales, which are

likely to begin early next year. 1.5 in late-1997 when the Corricent working interest, comes on stream.

Meanwhile, a continuing rise in North American energy prices could ease the pressure. Mr Henry Cohen, analyst at ScotiaMcLeod in Toronto. recently restored Talisman to his list of "buy" recommendations. "It's not the best balance sheet, but not the worst in a rising commodity environment," he says. The Goal deal

Sea. "Before, we didn't have

enough chips to trade, Mr Buckee says. The two companies would

have a combined North Sea production rate of almost 50,000 b/d oil equivalent. including natural gas, from The ratio should drop to about more than 50 licences. But they have no operating positions. Talisman is especially keen to dor gas project in Indonesia, in Talisman is especially keen to which Talisman has a 36 per gain greater control of costs and production timing by becoming an operator.

Mr Buckee says North Sea asset sales are more likely to come from Talisman's portfolio than Goal's. "This is not a grab and break-up."

But if the Bow Valley acquisition is any guide, some blood may be spilled as Goal is brought under Talisman's wing The Canadian company has replaced much of Bow Valley's North Sea management and Mr Buckee has a reputa-tion for liking things done his

CFF executives debate options for 40% cost cuts by 1998

Crédit Foncier de France, the special French property bank, is preparing to cut its operating costs over the next two years by up to 40 per cent as part of a restructuring plan to help tackle its current financial difficulties. The bank is also considering ways

of narrowing the range of services it

NEWS DIGEST

of future profits, sooner than

would otherwise be possible.

offers and concentrating on its core activities in the distribution of finance for low-income housing projects.

CFF would not comment on the implications for staff reductions, but it is thought the plan will almost inevitably lead to a cut of at least one third in the number of employees, which currently stands at about 3,600.

It may also be required to sell some of its property in central Paris to raise

Bank officials said yesterday they were discussing possibilities, including reducing services to property developers, local authorities and lease financing activities.

They were also examining alternative areas of expansion for the bank,

including developing its general banking services and property advisory and management expertise.

CFF was dealt a blow earlier this month when - in a highly unusual move - the Conseil des Bourses de Valeurs (CBV), the operator of the French stock market, came out against the bank's plans to merge with one of its subsidiaries.

The plan would have boosted the hank's balance sheet by FFribn (\$201m) but the CBV called for shareholders in Société des Immeuhles de France, the 55 per cent-controlled subsidiary, to have the right of a cash alternative to CFF's shares. CFF instead decided to withdraw its offer. CFF made profits for the first six months of the year of FFr12m.

Inn on the Park stake acquired

A 50 per cent stake in the Four Seasons Inn on the Park hotel. London, has been bought for £30m by Prince Al-Waleed Bin Talal Abdulaziz, the Saudi investor, writes Ralph Atkins.

Prince Al-Waleed is already a 26 per cent shareholder in Toronto-based Four Seasons Hotels. He was also part of a syndicate of investors, led by Mr Paul Reichmann, who earlier this year bought Canary Wharf, the large office develop-

sons hotel in London had been for sale since late 1993. Its disposal is part of a previously announced programme of sales by the group which has also disposed of its interest in the Four Seasons Biltmore Resort, Santa Barbara.

The stake in the Four Sea-

Expamet provisions Expamet International, which

is in the process of withdrawing from the electronics security sector with the sale of its Radionics business has announced provisions of £28.4m to cover the expected gap between the sale and book

The company is now apply-

Radionics sale and to permit the payment of dividends out

EUROPEAN INVESTMENT BANK

ESP 20.000.000.000

Capped Floating Rate Notes

Due 1,999

The notes will bear interest at 9,59063% per amum for the interest

Interest payable on 15 March 1995 will amount to ESP 2.425 per note.

period 15 December 1995 (included) to 15 March 1996 (excluded).

BANCO CENTRAL HISPANO

Paying and Calculation Agent

Chemex rises 68% Chemex International, the chemical and environmental analysis company, reported pre-tax profits 68 per cent ahead at £227,000 for the year

to September 30, against

£136,000. Mr Brian Webbe, chairman, said that the market was highly competitive but the first two months of the present year showed that progress could be

Turnover was ahead at folio valued at £13.8m. £1.64m (£1.59m). Earnings per

BDA acquisition

BDA Holdings is poised to become the property sector's only UK quoted specialist retail warehouse developer and investor following its acquisition of Edge Properties for up to £10.2m.

BDA is offering an initial £5.77m through the issue of 6.79m new shares, with a further payment to a maximum £4.37m also in shares. A plac ing and open offer will raise £5m through the issue of 5.88m new shares at 85p each, on a 13-for-40 basis. There is also a 1-for-5 share consolidation. Edge has an investment port-

Conrad Ritblat

chartered surveyor and property consultant, is acquiring Colliers Erdman Lewis, a firm of consultant surveyors and valuers, from the receiver for £400,000 cash.

It is also acquiring a portfo-lio of nine commercial properties from Royal Bank of Scotland for £9.9m. The group also proposes to consolidate every 10 existing shares of 10p into

Meconic advances

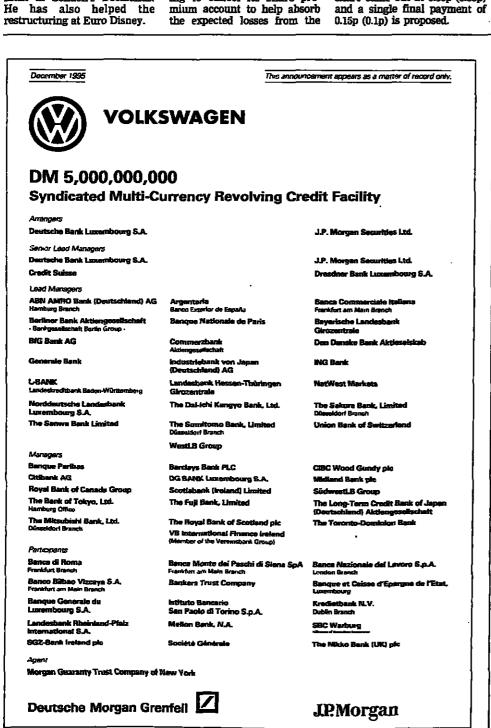
Meconic, the manufacturer of fine chemicals, which floated on the main market in June. pushed pre-tax profits up from £1.8m to £2.45m for the six months to November 3.

ales rose 15 per c £16.6m. The dividend is 1.65p (US) Conrad Ritblat Group, the from earnings of 5p (3.79p).

This advertisement appears as a matter of record only

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	CROSS BORE	ER M&A DEALS		<u> </u>
BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Investor Consortium (int'i)	Belgacom (Belglum)	Telecoms	£1.6bn	Ameritech leeds bid winner
Entergy Corp (US)	Citipower (Australia)	Power .	£44m	Victoria sellis 5th distributor
Tomkins (UK)	Gates Rubber (US)	Rubber components	est £650m	Preferred merg- er candidate
L'Oréal (France)	Maybeline (US)	Cosmetics	£428m	Edit for Wasa- erstein Perella
Stat (Italy)	Svyazinvest (Russia)	Telecoms	£411m	25% stake agreed
Enersis (Chile)	Edesur (Argentina)	Power	£253m	Buying gov'ts 39%
Cultor (Finland)	Pfizer Food Service (US)	Food	£223m	Pfizer focuss- ing on hithcare
Williams Holdings (UK)	Dual Spectrum (US)	Protection systems	210.5m	Buy for Kidde
Tallaman Energy (Canada)	Goal Petroleum (UK)	Oil	£131m	Agreed cash offer
Bristol-Myers Squibb	Pharmavit (Hungary)	Pharmaceuticals	n/a	Recommended



NOTICE TO HOLDERS OF EUROPEAN DEPOSITARY RECEIPTS IN SHARP CORPORATION

SHARP CORPORATION

EDR holders are informed of a dividend to holders of record date September 30.1985. The cash dividend payable is twen 5 per common stock of Yen 50 00 per share. EDR holders may now present Coupon No. 30 for payment to the underminentance agents.

Payment of the dividend with a 15% withholding rate is a outpet to recept of a valid stiffication of registence in a country having a lab treaty or agreement with Johan giving bonefit of the reduced withholding rate. Faffing nearpet of a valid inflictive Japanese that with be deducted at the rate of 20% of the gross dividend payable. The half rate of 20% will also be applied to stry dividend cleaned either April 30, 1995.

EDR Cross Dividend Psyable

Demonstration Dividend Dividend Psyable loss 20% Lapanese withholding to:

SECUR. Lapanese withholding to:

\$50.24

\$50.24

Depositary: Cabank, N.A., 336 Strand. London WC2R 1HB

December 18, 1995

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"Transaction") described in the Notice of Special Serial Meetings of Series 1, Scries 2 and Series 3 Bondholders (the "Bondholders") of Olympia & York First Canadian Place Limited published in this newspaper on October 20, 1995 took place on December 15, 1995. On closing of the Transaction, First Place Tower Inc. issued Cdn. \$143,000,000 First Moxtgage Bonds, Cda. \$86,000,000 Subordinated Convertible Debentures and 344,000,000 Common Shares (collectively, the "New Securities") to Montreal Trust Company of Canada (the "Trustee") in trust for the Bondholders. The Trustee will distribute the New Securities to Bondholders according to either (i) letters of transmittal to be completed and submitted by Bondholders in the case of the Series 1 Bonds, the Series 2 Bonds and the Series 3 Bonds not held through the Euroclear or the Cedel Bank clearing systems; or (ii) instructions given by Euroclear or Cedel Bank in the case of Series 3 Bonds held through such clearing systems.

Series 3 Bondholders may obtain copies of the appropriate letter of transmittal at Bank of Montreal, 11 Walbrook, 2nd Floor, London, EC4N 8EP, English (Phone: (0171) 236 1010 Ext 3311), any of the Paying Agents named in the-Series 3 Bonds and Montreal Trust Company of Canada, 151 Front Street West, 8th Floor, Toronto, Ontario, M51 2N1, Canada. Those Bondholders whose holdings are held in the Euroclear or Cedel Bank clearing systems should contact Euroclear or Cedel Bank, as the case may be, who will arrange for the appropriate instructions to be given on behalf of such Bondholder. DATED December 18, 1995

MONTREAL TRUST COMPANY OF CANADA

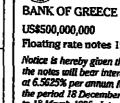
Fiduciary Issue by Kredietbank S.A. Luxembourgeoise to fund a loan to be made by it to

ISVEIMER Istituto per lo Sviluppo Economico dell'Italia Meridionale

Italian Lire 150,000,000,000 Floating Rate Notes due 1997

In accordance with the Terms and Conditions of the Notes, notice is here-by given that for the Interest Period from December 18, 1995 to March 18, 1996 the Notes will carry an Interest Rate of 11.04698% per annum. The Interest Amount payable on the relevant interest Payment Date; March 18, 1996 will be Π L 139,620 per Π L 5,000,000 principal amount of Note and Π L 2,792,405 per Π L 100,000,000 principal amount of Note.

Kredietbenk S.A. Luxembourgeoise



Floating rate notes 1998 Notice is hereby given that the notes will bear interest at 6.5625% per annum for the period 18 December 1995 to 18 March 1996. Interest payable on 18 March 1996 per US\$1,000 note will amount to US\$16.59.

Agent: Morgan Guaranty Trust Company JPMorgan

Capital One Master Trust U.S. \$300,800,900 Floating Rate Class A Certificates, Scries 1995-2

- 1

For the interest period 15th December, 1995 to 16th January, 1995 the Certificates will carry an interest rate of 6.0475% per annum with an amount of U.S. \$53.76 payable per U.S. \$10,000 denomination and U.S. \$537.56 per U.S. \$100,000 denomination, payable on 16th January, 1996.

14th December, 1995

Union Benk of Switzerland
London Branch Agent Bank

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FINANCIAL TIMES MONDAY DECEMBER 18 1995

COMPANIES AND FINANCE

Normandy US buy 'raises Dresdner Bank's profile' merger proposals find favour

By Mikki Tait in Sydney

Normandy, the Australian mining company run by Mr Robert Champion de Crespigny, gained a favourable stock market reception when it published the terms of its proposed A\$3bn (US\$2,23bn) fourway merger, on Friday.

This would see PosGold, the gold producer in which Normandy holds a 50.1 per cent interest North Flinders interest, North Flinders Mines, in which PosGold holds a 49 per cent stake, and Gold Mines of Kalgoorlie, which is 31.3 per cent controlled by PosGold, all merged into Normandy by way of paper exchange offers for the outstanding interests

The deal had already been outlined, but the exchange terms could not be announced until an independent valuation by Grant Samuel had been

The terms are 157 Normandy shares for every 100 PosGold shares, 71 Normandy shares for every 100 GMK shares; and 425 Normandy shares for every 100 North Flinders shares. Investors in North Flinders also have the choice of taking only 300 Normandy shares plus 100 "Tanami options" for every 100 North Flinders shares.

The innovative Tanami options, which will be listed, give holders the right to acquire one Normandy share for each 1m ounces of gold discovered on North Flinders exploration tenements (other than the Granites and Dead Bullock Soak leases), at fairly nominal price. The exercise date is end-March 2000.

Grant Samuel claims the deal should lead to a re-rating of Normandy shares of at least 20 per cent, as investors warm to a simplified group structure. Boards of the three other companies, however, will now take independent advice on the Grant Samuel terms, before making recommendations to

sharenoners.

However, the market warmed to the terms, pushing PosGold shares 15 cents higher, at A\$2.67, and North Flinders 30 cents higher at A\$7.60: Normandy gained 2 ISm shares as the government cents, to A\$1.90, while GMK cut a planned capital increase was unchanged at A\$1.27.

Dresdner Bank plans to build up a leading position in US and global asset management through its \$300m purchase of RCM Capital Management of the US, Mr Gerhard Eberstadt, a Dresdner director, said.

The bank said the acquisition, agreed last week, would make it Europe's sixth-largest asset management group, with total funds under management of \$170bn. RCM, previously owned by Travelers Group of New York, will comprise \$26bn

t was a close call, but Pech-

iney squeaked into the pri-vate sector. Final results

announced last Friday revealed

that France's aluminium and

packaging giant had garnered sufficient demand from inves-

tors in spite of adverse market conditions and a political crisis

which has rattled investor con-

However, any relief in the

corridors of France's finance

ministry will be marred by lin-

gering concerns. Pechiney's sale demonstrates it has become more difficult to dis-patch France's public sector

assets. With Mr Jean Arthuis,

finance minister, predicting FFr40bn (\$8bn) of privatisation

receipts next year - double this year's tally - the latest

operation suggests he will face a tough task in reaching his

banker involved in previous

privatisations. "But the endur-

ing lesson is that privatisations

In spite of a cheap price of FFr187 a share, Pechiney's pri-

vatisation drew only 470,000

individual investors, little more than half the number for

the summer sale of Usinor

Sacilor, the steel group, and a

fraction of the 2.8m who

snapped up shares in Banque Nationale de Paris in 1993

Institutional investors, who

have previously subscribed for

more than 10 times the avail-

able shares, barely covered the

supply this time. That was in

spite of the decision to almost

halve their allocation to about

for Pechiney from FFr4bn to 9 per cent stake it was forced

when the campaign began.

have become an unhill task."

"They got it away," says one

objectives.

Swiss banks, followed by Germany's Allianz insurance group and Deutsche Bank.

Mr Eberstadt said Dresdner, Germany's second-biggest bank, was still seen mainly as a D Mark investment specialist by big international investors, in spite of its activities in Asia and the US. It owns Oechsle, a Boston-based firm which specialises in foreign investments for US clients, and Thornton Investment Management, based in the UK and active in

DC Ores

2,100

FFr2.4bn and bowed to evi-

The lacklustre performance is easily explained. Investor

ardour was cooled by the cycli-

cal downturn in the aluminium

market; the complexity of the operation, which involved a

merger between Pechiney and

Pechiney International; the

separately quoted packaging arm; and the fact that the

group was in loss as recently

considerations behind the poor

show which are relevant to

future issues. Most important,

private and institutional inves-

tors have become disenchanted

by the performance of French

All but two of the issues

since 1993 are trading below

their offer price, some signifi-

cantly. Usinor shares, for example, are trading at about

FFr63, compared with their

summer issue price of FF196.

Pechiney's shares are also vul-

government's plans to sell the

nerable because of the French

privatisation stocks.

However, there were general

dence of weak demand.

ager like the big US houses." Dresdner had sought a US acquisition in this field for some time and came across San Francisco-based RCM in April, Mr Eberstadt said. It had faced strong competition from US and European banks to buy RCM. Dresdner was advised by

Mr Eberstadt said Dresdner had streamlined its asset man-agement activities to become

Jean Arthuis: receipts to grow

to retain in the company after

staling back the sale.

At the same time, French privatisations have had to com-

pete with a growing number of

international offerings, and

there is little prospect of a

Mr Arthuis and his officials

have some grounds for opti-

mism. The Paris stock market

is enjoying a rally as a protracted strike against the

government's austerity policies

appears to be crumbling. The

Bank of France has resumed its policy of gradual monetary

easing, raising hopes that the

Mr Arthuis is further hoping

to stimulate market sentiment.

through fiscal and savings

reforms. "Our tax system must

favour long-term investments

directed towards shares," he

says, hinting at incentives for retirement funds next year.

improve, there are several can-

didates for sale. Renault, the

motor group, appears to be in pole position, having floated last year. Mr Arthuis also cites

Should market conditions

rally on the bourse can last.

French privatisations an uphill task

he said. We are not yet grow by about 15 per cent a accepted as a global asset manyear. The RCM deal follows this year's purchase of Kleinwort Benson, the UK merchant bank, for DM2bn (\$1.39bn).

The volume of assets under management at RCM, up by 19 per cent in 1995, was expected to rise about 13 per cent a year up to 2000, he said. It made a pre-tax profits last year of 49m and had also done well in 1995. Thus Dresdner would achieve an immediate return on investment of more than its more competitive, with its overall target of 12 per cent.

the two insurers. AGF and

Caisse Nationale de Prévoy-ance, as candidates.

choices are more difficult. Many of the remaining compa-

nies in the public sector, in

particular those big enough to make a significant contribu-

tion to the state coffers, need

whether to restructure its con-

France Télécom - a politically

explosive issue given the oppo-

The government believes

that time is on its side. "We

will not flog off state assets

below their value," says one

finance official. "We don't face

the same budgetary pressure

as the previous government,"

he adds, referring to the deci-

sion to put privatisation

receipts into the national capi-

tal accounts rather than using

them to fund current spending.

Such a stance may prove necessary. After the battering

issues, it is likely to take time

to regain their confidence.

sition of trade unions.

planned to pay for the buy. He said that, unlike the failed purchase by Bayerische Vereinsbank of Oppenheimer Group, the US brokerage, asset management and investment banking house, Dresdner's deal should encounter no problems with the US Federal Reserve.

This is because RCM is only involved in asset management. RCM's pension fund customers include AT&T, Coca-Cola, Chevron, Boeing and Monsanto. Pension funds account for 40 per cent of its business.

Michelin to unveil plans for revamp

We already have several smaller operations under way," Michelin, the world's biggest he says. These include last week's news that Credit tyre producer said it was studying a reorganisation and expected to announce mea-National is making a FFr3.4bn cash offer for BFCE, the statesures in early 1996, Reuter owned banking group.

Beyond that, however, the

reports from Paris. The company did not elabo-rate, but described as incorrect an item in the French magazine Le Nouvel Economiste which said the group was expected to announce major redundancies as part of a

time to get into shape. Air France and Crédit Lyonrestructuring on January 15. The article said management ranks would also be shaken up nais are in the midst of to allow the heir-apparent, Mr Edouard Michelin, to put his restructuring plans after incurring heavy losses, while Thom-son, the electronics concern. stamp on the company. He is the son of the managing part-ner, Mr François Michelin, 69. awaits delicate decisions about sumer and defence electronics activities. More sensitive, Michelin said an internal study of the group initiated by although potentially lucrative, would be a sale of a stake in the three managing pariners aimed to define ways to

improve its performance and profitability. Michelin's stock fell FFr5.10 to FFr190.80 in Paris on Friday as traders speculated that the study had been prompted by concerns about the outlook for the tyre business given slowing economic growth in

much of Europe.

Analysts said technological innovations in the tyre industry and automated production processes meant Michelin, which employs 110,000 people worldwide, was probably over-

investors have taken with The company, based in the France's recent privatisation town of Clermont-Ferrand, returned to profit last year, earning FFr1.29bn (\$259m). It has 18 per cent of of the world John Ridding

Mediobanca appeals to higher authority

NEWS DIGEST

Mediobanca, the Italian merchant bank, has lodged a further appeal over the need for it to launch a public buy offer for Ferruzzi Finanziaria (Ferfin), the holding company. Meanwhile, Ferfin shares have been suspended on the Milan bourse. The Milan-based bank lodged its appeal with the Italian higher court of the State Council after its first appeal with the regional court of Lazio was thrown out last Wednesday. The State Council is expected to meet on December 22 to discuss the appeal.

Ferruzzi shares were suspended at L1,056 on Friday, the first day of the company's L953bn (\$597m) rights issue, pending clarification from Mediobanca on the terms for its public buy

Consob, the stock market watchdog, ruled that only Ferfin shareholders on the group's share register before the company launched its rights issue could participate in Mediobanca's public buy offer, and not those holding only the new rights

Crédit Agricole targets Idia

Crédit Agricole, the French banking group, has aunounced a FFribn (\$201m) friendly takeover bid for the Institut de Développement des Industries Agricoles et Agroalimentaires (Idia), the quoted venture capital group. The caises nationals of Credit Agricole, representing its different regional banking organisations around France, made an offer of FFr200 each for

the outstanding shares in the group.

Credit Agricole already owns 26.5 per cent of Idia, which was created in 1980 and has been quoted since 1987 in the SRF 250 index of the top 250 French companies. Andrew Jack, Paris

Kyaerner urges bid acceptance Kvaerner, the Norwegian shipbuilding and engineering group,

yesterday made a final appeal to Amec shareholders to accept its £360m (\$554m) hostile bid. The 100p a share offer closes at ipm today. Amer, the UK construction and engineering group, said the bid undervalued its profits recovery potential.

Mr Erik Tonseth, Kvaerner chief executive, said Amee had ailed to keep previous promises and was "begging shareholders for one last chance, one more throw of the dice. Shareholders should remember that since its 1991 rights issue Amee has generated average annual losses for ordinary

Amec said Kvaerner was trying to buy the company cheaply when it was poised for a profits revival having overcome recent problem contracts and achieved a cost-saving labour productivity deal at its Newcastle oil and gas fabrication yard.

Ciba refocusing continues

Ciba, the Swiss chemicals and pharmaceuticals group is hiving off its leather and fur chemicals business to a 50-50 joint venture with the German Hüls chemicals group. This is the latest in a series of significant moves by Ciba aimed at strengthening its focus on its healthcare businesses.

Ciba said the new leather and fur chemicals joint venture, to be set up with Hüls subsidiaries Röhm of Darmstadt and Stockhausen of Krefeld, would be called TFL Ledertechnik. Its 1996 sales were expected to reach DM350m (\$342.6m). In the nitial stage, the venture would be responsible for research and development, sales and distribution. The founding companies would retain direct control of production. Ciba's sales of leather and fur chemicals last year amounted to SFr165m (\$141.7m), compared with overall group sales of

This notice is issued in compliance with the requirements of The London Stock Exchange Limited. It does not constitute an invited Phoenix Trust Limited (the "Company"). Application has been mad to The London Stock Exchange Limited for the securities mention below to be admitted to the Official List and it is expected that admission to the Official List will become effective and that dealing mence at 8.30 a.m. on 15th January 1996.



JERSEY PHOENIX TRUST LIMITED

PLACING AND OPEN OFFER. at the issue price of £1 each payable in till on application

es may be obtained during normal busin including 19th December 1995 (for collection only) from the ments Office, London Stock Exchange To-Capel Court, off Bartholomew Lane, London EC2N 1HP and de nal business hours up to and including 29th December 1995 from the registered office of the Company at No. 1 Seaton Place, St. Helier, Jersey IE4 8YJ, Channel Islands and from Cazenove & Co... The Government of the Republic of Congo has selected Banque Paribas,

in consortium with Lahmeyer International, as financial adviser for the concession

of its public water (Société Nationale de Distribution d'Eau)

and power (Société Nationale d'Electricité) services.

International water and power operators interested in bidding are kindly invited to call on or fax to:

Mr Jean-Michel Doublet Tel: 33 1 - 42 98 14 87

Mr Pascal Ferradou Tel: 33 1 - 42 98 17 61 Fax: 33 1 - 42 98 11 94



BANQUE PARIBAS 4. me d'Antin - Botte Postale 141 - 75078 Paris Cedex - France

The Financial Times plans to publish a Survey on

Franchising

on Tuesday, March 12th.

This survey will focus on areas such as research for potential franchises, explores sources of funding available and highlights the specialist help available.

For more information, please contact

Lesley Sumner Tel: +44 (0) 171 873 3308 Fax: +44 (0) 171 873 3064

All of these shares were offered and sold exclusively in Indonesia, this announcement appears as a matter of record only



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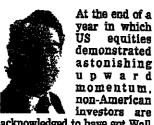
PT Makindo

November 1995

CAZENOVE The prospecus relating to the Company, including details of the zero distincted preference shares, was published on 15th December 1995 ahouse Yard; EC2R 7AN. REUNION MINING PLC tion to the Official List of the issued Ordinary Share capita

Global Investor / John Plender

Still riding the US bull market



investors are acknowledged to have got Wall Street wrong. What makes this doubly galling for them is that so many Americans appear to have got it right for the wrong

The great productivity miracle was the best bullish story of 1995. Yet the notion that US industry has achieved a secular break-through in productivity, while not implausible. remains a hypothesis. There are simpler and more readily verifiable explanations for much of the upsurge in prices.

The one thing that was genuinely difficult to predict at the start of the year was a build-up of excess inventory. The widespread failure to detect this was excusable. Industrialists do not spend their time telling analysts that they expect to accumulate excess inventory. If it were predictable, it would

Against a background of extremely rapid growth in the final quarter of last year, it was thus understandable that so many people were putting interest rates that, in the

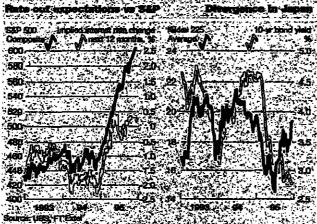
At the end of a vear in which equities demonstrated astonishing upward momentum,

> event, failed to materialise The first chart provides as good an explanation as any of why Wall Street behaved as it did in 1995. It shows the difference between today's interest rates and the futures market's expectations of rates in 12 months time, plotted against the S&P index.

The falling line in the final quarter of 1994 portrays the conviction that the Federal Reserve would further tighten monetary policy, as the mar-kets sensed that the economy was growing at well above trend growth. The story in the first half of 1995 is then one of dramatic changes in interest rate expectations as investors got wind of the inventory-induced slow-down.

The markets' expectations were validated in July when the Federal Reserve reversed policy with its quarter point cut in the federal funds rate. By this time the adjustment in expectations was largely com-

The bond market, meantime. was pushing in the same direction. By December a large valu-



ation adjustment had taken government bond yields back to within striking distance of their level before the 1994 bond market crash. This process was encouraged by the Japanese, who were flooding global markets with liquidity in their efforts to prop up the Japanese banking system. The story of miraculous productivity was thus floating on a very powerful monetary tide.

In a well reasoned attempt to establish whether US equity investors are in the grip of an investment mania, a study from the Montreal-based Bank Credit Analyst argues that the time to bale out of great bull markets is when trusted investment yardsticks are discarded on the basis that a 'new

era' has begun. It highlights four potential examples of this: the histori-

Richard Mooney

0.03

cally low level of dividend yields; the rise in the number of bond and equity mutual funds from less than 1,100 to 4,600 over the past decade; the 'new industrial revolution' story that has caused technology stocks to soar; and the Federal Reserve's adept management of the business cycle, which is taken to mean that investors need not fear big swings in economic activity

and inflation. The study nonetheless argues that while there is plenty of froth around the edges of the bull market it is too early to conclude that the game is up.

This is hard to argue with. Bull markets usually come to an end when they confront tighter monetary policy; and one definition of a market mania is when prices levitate

tighten. This is clearly not the case today, when many in the market are still hoping for a further fall in short-term dollar interest rates. And on the question of equity valuation, it is possible to argue that while dividend yields are low, price earnings multiples are in historically unexceptionable terri-

tory. This points to corrections rather than crashes. But so much in today's markets is rid-ing on successful fiscal consolidation that any serious upset on the path towards a balanced US budget could prove nasty. A lesson of the 1994 bond market crash was that the degree of leverage in today's markets is greater than it looks. The importance of the bond market's rise in equity valuation this year suggests that equities may be more vulnerable to a bond market shake-out than

they were last year. Where will foreign investors go wrong in 1996? Quite possibly in Japan. In a market which frequently departs from fundamental yardsticks of valpotential tank traps. Estimates of the true Japanese budget deficit after adjusting for the eccentricities of the Japanese budgetary process range up to an Italian style 8 per cent of GDP. Yet 10-year bond yields are at rock bottom levels of about 2.6 per cent.

The second chart, from UBS Global Research, demonstrates that a longstanding negative correlation between stocks and bond yields has broken down, reflecting official intervention to liquify the financial system through purchases of govern-ment bonds. The equity market is thus supported by an artificially low level of bond yields Given that Japanese equities are still overvalued by global standards, the scope for upsets if there were any histus in the government support operation recalling, incidentally, that Japanese bonds halved in value in the six months to October 1987 when the rest of the world was obsessed with the path of equities.

The larger question for investors in Tokyo is how long it will take for equities to shift from stakeholder-influenced valuations to US-style valuations. A smooth transition would be quite as miraculous as a US productivity improvement that turned out to be secular rather than cyclical.

COMMODITIES

Cocoa curbs in spotlight

The International Cocoa Organisation makes another attempt this week to bridge its production management plan's credibility gap.

Representatives of some delegations, including producers, told the Reuters news agency last week that they planned to maintain pressure on producers to take serious action under the plan.

The aim is to cut production by 375,000 tonnes by the end of the decade in an attempt to bolster cocoa prices, but critics claim that unrealistic output

projections in the first two years of the plan meant that little in the way of real production constraint was required of producers. In the autumn of 1994 the

producers projected their output for the 1994-95 season at 2.48m tonnes; but consumer members of the ICCO argued that the figure was deliberately set too high. Mr Hagen Streichert, head of

the German ICCO delegation said before the last ICCO meeting in September: "We don't want a repetition of the performance from last year when we ended up with dream figures". And some producers delegates agree. "Our strategy would be to keep this in the spotlight until the March meeting [of the full ICCO council]." one told Reuters last week. "This mechanism has never been put to the test. To be fair it is not being put to the test because it has not left the

Another contentious issue before the ICCO delegates this week is the European Commis-

paper yet. Countries are not

sion's draft chocolate directive, which would allow Britain, Ireland, Denmark, Portugal, Austria, Sweden and Finland to continue using non-cocoa fats in chocolate. Producers maintain the chocolate should be made with 100 per cent cocoa fat.

The commission is to discuss the draft on Wednesday.
This week's ICCO meeting

could also see pressure for the organisation to begin considering the future shape of its budget in the absence of revenues from buffer stock sales.

The average economist is Grinch in the Dr Seuss story who tried to steal Christmas. surge

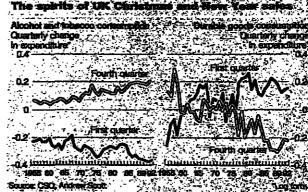
ending that occurs over the Christmas and new year sales period may be the lifeblood of the retailing industry, but for economists it is an amnoying 'seasonal fluctuation" which they will do all they can to adjust out of the statistics.

At first glance, this policy of avoldance seems eminently sensible. Christmas, after all, comes once a year, at the same time. Macroeconomic forecasters would be even more wildly out with their predictions for next year's growth if they made no effort to distinguish recent seasonal swings in consumption and output from authentic cyclical

Over the longer term, however, a recent paper* by Andrew Scott, of Oxford University suggests that ignoring "predictable", seasonal trends could be a mistake. First because their economic effects can change dramatically over time, with significant knock-on effects for the structure and size of different industries. And second, because analysing the long-term dynamics of Christmas might allow a better understanding of the long-term dynamics of the

economy as a whole. The first graph shows how hol and tobacco has increased over the last forty years. In the early 1960s, sales in the fourth quarter were only likely to be about 4 per cent higher than in the previous three months, with consumption generally falling by about 25 per cent in the following quarter. Yet, by the early 1990s, fourth quarter sales of this category of goods were some 20 per cent higher than

Yuletide



Economics Notebook

in the third quarter, followed per cent in the new year's resolution period.

As Mr Scott points out, the sheer size of the figures ations worth studying in their own right. Between 1960 and 1994 the seasonal Christmas boost to consumption in the fourth quarter rose from £1.6bn to nearly £4bn in 1990 prices. This implies a rise in expenditure of some £87 per head of the population, solely attributable to a rise in the

demand for Christmas. Economists would not have to fret unduly about shifts in seasonal demand patterns if they could explain them. The trouble is it is difficult to pin the long-term rise in yuletide spending on any of the usual economic suspects. As Mr Scott notes, economists tend to expect individual consumption to be closely related to changes in income, but the seasonal effects on household income are generally rather small, and have, in fact, been

falling in recent years. A changing, seasonal, pattern in interest rate move-

ments would be another economic explanation for the rise of Christmas. Chancellors might have become increasingly reluctant to raise interest rates in the months leadfear of all those "Scrooge"

headlines. Yet Mr Scott finds that, while there has indeed been a slight seasonal pattern in interest rate movements over the past thirty or forty years, it ought to have worked to lower Christmas consumption, not raise it. On average, interest rates have tended to be higher in the second half of the year, possibly because spring or early autumn elections are more common than

winter ones. Predictably, perhaps, the author finds that he can only explain this shift by stepping outside economics, to look at changes in social customs. As he notes, the traditional Christmas was actually quite recent invention, traceable to two key events in the 19th century. First, the publication of Charles Dickens' Christmas Carol in 1843, which made

celebrating Christmas fashion-

able after centuries of decline Second, and more important, from an economic standpoint, was the extension of present-giving to adults from 1870 onwards. This effectively opened the way for every branch of retail trade to get a boost out of Christmas, not merely those in selected food and drink industries.

Mr Scott thinks that a range of cultural developments have been working to enhance further the season's significance since the war. Take the invention of new year sales. In the mid-1950s, durable goods sales would typically pick up sharply in the fourth quarter, and then fall off in the first three months of the year. Today, as the second graph shows, the pattern has been completely reversed, with sales falling in the fourth quarter, then rising smartly in the bargain-filled first quarter.

You might say that Mr Scott had merely re-stated what would seem obvious to noneconomists: that Christmas is getting bigger - and earlier every year. But one can also his findings. This is because the rise of Christmas and new year is an example of an important economic change, which the most sophisticated economic model would have entirely failed to predict, still

less explain. It is at least plausible that there are similar gaps in economists' understanding of other, non-seasonal, economic variations. The spirit of Christmas might hold lessons for understanding the broader Keynesian "animal spirits" at work in the economy, or their modern variant, the dreaded feelgood factor. Who knows, if Mr Clarke took time to ponder why consumers keep voting for Christmas, he might learn something about how to get them to keep voting for the Conservatives.

Control

Con

*Why is Consumption sonal?, October 1995.

Stephanie Flanders

The State of Israel has received long term debt ratings from Moody's Investors Service, Inc Standard & Poor's Corporation

Merrill Lynch & Co assisted the Ministry of Finance of the State of Israel.



The Hashemite Kingdom of Jordan has received long term debt ratings from Moody's Investors Service, Inc

Standard & Poor's Corporation

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1722H (28)	135.33	-17.1	130.34	87,35	101.50		-5.3	1.83	135.42	130.44	88.87	101.51			165,22	
Zenedia (101)	.146.27	19.1	140.87	94,41	109.70	145.73	10.9	2.56	146.74	741.34	94,13	109.98		180.75 150.83	86.06	
Perimerk (33)		13.8	276.03	184,99	214.96		4.6	1,50	286,69	278.08	185,20	218.40		295.99	121.81	
rance (100)		-4.3 7.4	171.39	114.67	133.47	162.10	-12,4	1.98	198.62	191.31	127,41	148.88		276,11	236.61	
			169.22	118,41	131.77	136,80	-0.1	3,21	178,47	169,98	113.21	132.28	137.65		171,13	
Sermany (59)	103.18	13.9	157.17	105.34	122.39	122.39	6.0	1,97	163.72	157.71	105.03	122.72	122.72	191.17	157.79	
long Kang (56)		15.7	363.44	243,57	283.03	374,74	15.7	3.90	379.89	365.92	243.60	284.75		167.74	137.89	
reland (16)		23.4	245.01	184.20	190.80	225.51	19,9	3.40	254.59	245.23	183.32	190.84		389,39 260,87	277.40	
28ly (59)		-4.0	89.63	46,66	54.22	88.19	-5.5	1.70	70.27	67.68	45.08	52.67	84.02		195,60	
apan (463)	151.09	-3.2	146.29	98.04	113.92	98.04	-0.9	0.78	153.58	147.94	98.52	115.13	98.62	82.71	65.45	. 69.
lateysia (106)		1.0	466.46	312.62	383.25	474.63	0.7	1.74	489.02	471.05	313.71	366.57		164.62	136.95	
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lew Zeeland (14)		10.4	74.90	50.20	68,33	63.33	8.4	4.58	78.36	75.48	50.27			268.72	210,34	210
onway (33)		6.7	219.08	146,62	170.60	198,72	0.5	2.13	229.74	221.29	147.38	58,74 172,21	63.73	85.49	69,74	. 7t.
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paán (38)	160.42	21.6	154,49	103.54	120.31	149.45	13.6	3.92	159.70	153.83		289.71	309.74	392.04	281.06	224
weden (47)	309,18	31,2	291.99	195.69	227.39	297.11	16.8	202	304,77	293.57	102.45	119.71	148.45	160.51	124.10	137
witzerland (40)	232.04	40.5	223.47	149,77	174.02	- 167.40	24.9	1.59	230.62		195,51	228,45	300,38	321,89	226.76	_ 22B
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nited Kingdom (206)		15.8	217.28	145.62	169.21	217.28	17.7	4.04	227.17	158.42	105.50	123.28	160.47	184,65	180.15	160
SA (638)		33.7	241.71	161,99	188.23	250.98	33.7	2.23		216.62	145.73	.170.28	218.82	228.33		
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orth America (739)	244.52	32.8	235.50	157.83	183,39	249.94	32.7	2.24	244.85	235,84	114,10	133,32	131.71	178.33	154.73	161
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BANN Gloom shrouds Mexico

By Leslie Crawford in Messico City

Mexicans have begun to realise, with an impending sense of gloom, that the recession and financial uncertainty that plagued them this year will continue in 1996.

A weak banking sector, dwindling personal incomes, and the prospect of continued high interest rates are expected to impair Mexico's ability to stage a rapid economic recovery. Even if the economy were to live up to the govern-ment's wildest dreams and grow by 3 per cent next year a feat most private-sector analysts think unlikely - it would still not have recovered ground lost in 1995. According to government forecasts, the economy will contract by between 6.5 and 7 per cent this year.

If there is little consensus on Mexico's ability to achieve growth, there is even less greement on the likely behaviour of its erratic interest rates, inflation, or the value of

its volatile currency.

According to the Bank of
Mexico's 1996 monetary programme, the government will aim to bring annual inflation down from 52 to 20.5 per cent by end-1996. The central bank estimates the value of the peso, which has been floating for most of this year, will average 7.7 against the dollar in 1996.

The official targets have not found much credence with economic consultants in Mexico City, or emerging market fund

in 1996 range from 0.9 to 2.8 per cent. The most conservative estimates of inflation start at 26 per cent, while the best educated guesses about the peso's behaviour place it at about 8 to the dollar.

"There is no broker consensus regarding the level of the peso next year," says Mr Mark Smith, a strategist with World

After a difficult year among the Latin American financial markets correspondents in the region's leading centres look back on 1995 and preview expectations for 1996

Invest in London. "The lack of predictability makes us uncomfortable, because our investors are looking for dollar returns." "It will be difficult for foreigners to make money on the Mexican stock exchange next year," predicts Mr Geoffrey Dennis, director of Latin American Equity Research at Bear

Stearns. "The weak currency

will continue to depress dollar

Mr Dennis is forecasting an region will offer better average exchange rate of 10.1

In Mexico, private-sector pesos to the dollar for 1996. He forecasts for economic growth is also pessimistic on the government's chances of lowering inflation. "It takes at least two

years for the effects of a devaluation to feed through domestic prices," he argues. Mexican prokerage houses

are not expecting an early return of the foreign portfolio investors who took flight after the botched devaluation of the neso last December.

Latin America Dow Jones Industrial Average

Preliminary balance of payments figures show almost \$4bn left the Bolsa in the first half of 1995. The departure of foreign investors contributed to the collapse in stock prices, which lost 50 per cent of their dollar adjusted value in 1995. Bear Stearns is predicting a modest rise of 10 per cent (in dollar terms) for the Bolsa in 1996. It is not alone in believ-

ing other stock markets in the

Dec 93 1994

Guarded optimism bolsters Argentina

By David Pilling in Buenos Aires

Most Argentines would prefet to forget 1995. The best that can be said is that the comtry's fixed-exchange rate and currency board system survived, despite the dire predic-tions of many analysts that Argentina would follow Mexico down the thorny path of deval-

The price paid for survival was recession. This month, officials finally admitted that GDP would drop 25 per cent this year. The damage was done in March when Argentines sent \$8bn - or 15 per cent of total deposits - abroad, causing a severe credit crunch and a subsequent strangling of

Just when it seemed that the

worst might be over, in July the newly re-elected administration of President Carlos lenem was beset by bitter political infighting. The future of Domingo Cavallo, the economy minister and the darling of foreign investors, seemed in

blue-chip stocks reached its low point of 262.11 in March, 43 per cent below its close at the end of 1994. It rose past 400 as it became clear that Argentina was not going to devalue, but plummeted again when political wrangling broke out. By those standards, it was with a sense of relief that

Argentina reached mid-December with the Merval at 478.2, fractionally above the 460 level at which the year began.

Sentiment

improved by a political truce struction sector, which is export performance in 1995. and by snippets of good news. expected to revive thanks to That trend is expected to and by snippets of good news, such as \$1bn pledged in a tax amnesty and the revival of the long-dormant privatisation process. Daily volumes of \$20m. still modest, at least climbed above single-figure doldrums.

There is a sense of guarded optimism for 1996. GDP is The Merval index of expected to grow by about 2 to 3 per cent, while inflation should be negligible. But, warns Mr Christopher Ecclestone, analyst at Interacciones, "one can't expect any-

thing but pedestrian earnings growth". Argentine p/e ratios, averaging 12.1 according to ING Barings, may look attrac-tive, but most companies will struggle to lift profits in the face of depressed demand. Groups that could buck the expected to revive thanks to government-backed mortgage schemes and the return, to some extent, of bank credit. By December, some 90 per cent of deposits that fled had returned. and banks were cautiously beginning to lend, though

Companies with export

potential could also do well, particularly those in the boommg agricultural sector. Unfortunately for investors few are listed, although analysts say 1996 could see several new companies being quoted on the Bolsa.

mainly to consumers.

Low inflation, plus continued productivity gains, are making once-overpriced Argentine products increasingly competitive abroad as evidenced by the

continue next year, although not quite so dramatically. Exports, though, still comprise too small a portion of GDP to lead the economy out of stag-

Much will depend on the per-formance of Brazil, whose consumer boom explained much of Argentina's higher exports in 1995, and on continued high commodity prices. The country's modest prospects for next year also remain vulnerable to another external shock of the sort that derailed the Argentine "miracle" in 1995. But barring any nasty surprises, some analysts believe the Merval should top 600 points by the end of 1996, which would represent more than a 25 per cent

Brazilian stocks face uncertain start to year

By Jonathan Wheatley in São Paulo

After what Mr Alvaro Vidigal, president of the São Paulo Stock Exchange (Bovespa), described as a "difficult" year for the market, Brazilian stocks face an uncertain start to

Buffeted by the aftermath of the Mexican currency crisis and by politi-cal and economic worries at home, stocks made little headway during the year and the Bovespa index is set to end 1995 little changed from its 1994 close of 43,539.

Despite the continuing success of Brazil's economic stabilisation plan and underlying confidence in the gov-

ernment's ability to deliver its promised structural reforms, stocks have suffered from an economic slowdown in the second half of 1995 and from

impatience at the pace of reform. Mr Vidigal says Brazilian stocks attracted less foreign investment this year because of competition from markets in other emerging countries and in the US. The Bovespa is expected to trade a total of R\$70bn (\$72.4bn) this year, down from R\$88bn in 1994.

Brokers are doing their best to put a brave face on next year's prospects.

Mr Andrew Shores, of Brazilian

Phillippine

investment bank Garantia in São Paulo, says slower economic growth during the first half should mean many

Philip Gawith

companies will underperform, "But for the year as a whole, companies serving lower income groups will do well, espe-cially in industries like food and beverages, packaging and retail."

The drop in inflation from 50 per cent a month in June 1994 to less than 2 per cent today has particularly benefited Brazil's poorer majority, who now have disposable income for the first time in many years.

Mr Shores says public sector compa nies should also outperform the market thanks to recent and planned increases in utility tariffs. "It will be a market of few stocks," he says, "but those few should perform well". Markets have been disappointed in

ING Baring Securities Emerging Markets Indices

1995 by what has been seen as slow progress on the government's reform programme. There have been few privatisation sales, and reforms in tax and, especially, welfare and the civil service have met opposition in Congress. The reform programme is far

from derailed, however. "Even though reforms aren't moving as fast as the market would like, progress is still being made," says Mr Wayne Perkins of Norchem, Chemical Bank's investment banking affiliate in Brazil, "Investors should soon start to see that the glass is half full instead of

Mr Perkins thinks improvement could come early next year.

CURRENCY MARKETS

Markets look to festive Fed

The only scheduled event of any significance that stands between currency traders and their turkey is the meeting tomorrow of the Federal Open Market Committee in the

Last week saw most leading European countries, with the exception of Italy, cut their rates. The question is whether the Fed will follow their

example. The market consensus is easily summarised: the eco-nomic case for lowering rates the deficit on course for

FT GUIDE TO WORLD CURRENCIES

The only issue is the timing, and the only reason for not moving this week is uncertainty about the outlook for fiscal policy, while the budget imbroglio between the White House and Congress remains

Mr Dave Munro, chief US economist at High Frequency . Economics in New York, is "Fiscal atmospherics will

remain broadly investor

is well-nigh unimpeachable: balance in the new decade.

He believes, however, that the Fed will leave rates unchanged, with a bias towards ease.

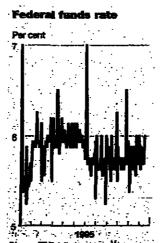
Analysts at IBJ International in London agree, arguing that "the adverse market impact resulting from inaction will be limited by speculation that the Fed will definitely move at its 30/31 January meeting. At that time, policymakers will have the advance estimate of 1995 fourth quarter GDP, providing clear evidence of the economy's slowdown, together with a freshly minted budget deal."

The table below gives the latest swellable rates of exchange frounded against four key currencies on Fidely, December 15, 1995 . In some cases the rate is nominal. Market rates are the average of buying and selling rates except

Whatever the Fed decides. market response is likely to be muted. Few investors or traders have the appetite for risk in the final days of the year. following the Mexican debacle a year ago. The outcome of the weekend

elections in Russia has some

potential to move markets. A strong showing by Communist/nationalist parties could unsettle the rouble, and henefit the D-Mark but the rouble's calm tone last week suggests these scenarios are already in the price.



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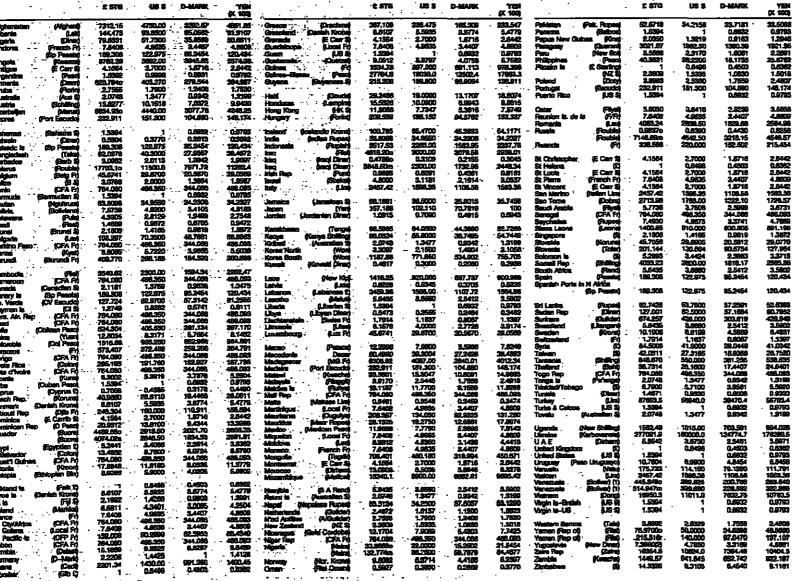
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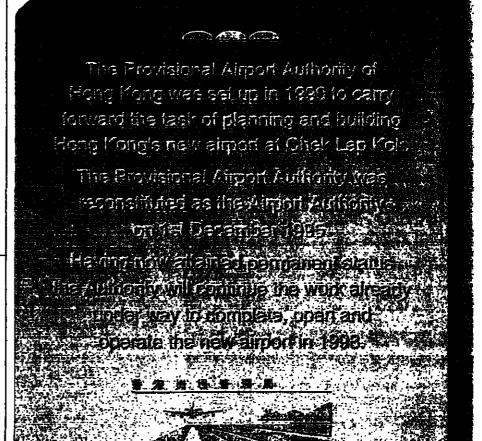
TEL: (301) 3311456 - 3245674 FAX: (301) 3252241 - TELEX 210733 ATRA GR ATHENS STOCK EXCHANGE Dec 8th - Dec 15th 1995 GREECE GDP (USD bn) 95e Per Cacica Income (USD) ASE INDEX P.E 95e (after 12x) %Chg (Prev. Wk) P.E 94 (after tax) Yearly High 996 75 SPS GROWTH (%) 956 12 month T-bill (%, and at November issue) 782.22 Yearly Low P/CE 95e/94 8.0 / 10 1 1-month Athibor (%) WEEKLY VOLUME (USD GRD-US\$ 332.26 %Chg (Prev. Wk) 82.31 Drv. Yield (%) 956.94 5.0/44 A.S.E. Market Capitalisation - 15/12/95 (USD bn) 16:50 Y WALAND. (USD m) 105.60 IPOs & Rights Issues (USD m Jan 95-15 Dec 95) 320.94 Quebec Central Railway **BUSINESSES FOR SALE** Company Capital Stock Call 0839 35 35 15 Appear in the Financial Times on Tuesdays, Fridays and Safurdays. For further information or to advertise in this section please contact Karl Loyston on 0171 873 4780 or Lesley Summer 0171 873 3308 in preparation for the payment of the half yearly dividend due Lamany 15 1996 on the For a free Dealing Pack which includes the full range of 17 Futures Call services phone (0171) 522 2205 above stock, the transfer books will be close D.R.Keast Futures CALL An MEC Company

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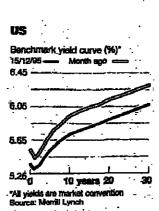
NEW YORK

WORLD BOND MARKETS: This Week

After interest rate cuts in Europe last week, the focus now shifts to the US, and tomorrow's meeting of the Federal open market committee. Wall Street appears evenly divided over whether the Fed will shave another 25 basis points off its target rate. or wait another month before acting.

The continuing rancour in the budget debate and mixed economic signals recently have made optimists a little more cautious. Last week, for instance, a reported jump in producer prices for November seemed to indicate a build-up of inflationary pressures though that was followed swiftly by a highly favourable (for the bond market) consumer price report. Weak holiday sales in the stores have added to the impression of

If the Fed chooses not to act tomorrow, any decline in the price of longer dated bonds is likely to be limited: the general expectation remains for a



Richard Waters

quarter-point cut soon, with more to follow later in 1996. That other big US deficit on trade - will be the focus of attention on Wednesday, with October's export/import figures: according to economists surveyed by MMS. the deficit will jump to \$9bn, from \$8.3bn the month before. On Tuesday, third-quarter GDP is likely to be revised up

from its initial level, with

many forecast putting the

growth at about 3.5 per cent.

Gilts had a strong week, boosted first by the cut in UK base rates on Wednesday and spurred further by rate cuts in nearly every other European country. On Liffe, the March long gilt futures contract hit a high of 1111 on Friday and closed at 111, up from 110 the previous week. Although investors may be tempted to take profits as the year-end approaches, dealers

expect gilts to remain well-supported. "Domestic and foreign inflows are expected to continue solidly until Christmas," says Mr Andrew Roberts, gilts analyst at Union Bank of Switzerland. He expects the yield curve to

flatten as the short end has aiready factored in the probable full potential for monetary easing - the June 1996 short sterling contract pricing in two 25-basis-point rate cuts, and the two-year to 10-year yield spread close to its peak at 127 basis points. Index-linked gilts are likely to continue underperforming

LONDON

Benchmark yield curve (%)"

Conner Middelmann

conventional bonds, partly because £220m of unsold tranchettes are still overhanging the market.

The data calendar looks somewhat more sparse than last week's, with Novembe public-sector borrowing numbers due on Monday (analysts are looking for a rise of £2.5bn): November M4 money supply data on Wednesday, and final fourth-quarter GDP figures on Thursday.

FRANKFURT

With a final pre-Christmas flourish, the Bundesbank delivered the interest rate cut the markets had been awaiting and sparked a wave of similar moves across Europe. Bunds advanced and dealers expected the trend to continue. There had been concern that

the bond market could ease when the Bundesbank cut rates - many economists had not expected it to act until early next year - since this would be perceived as the last reduction in the cycle.
This proved unfounded Also.

speculation about yet another rate cut can be heard, the likelihood depending on whether the German economy deteriorates further or the French franc comes under With the next three

securities repurchase (repo) tenders set at 3.75 per cent against last week's 8.98 per cent - the discount and Lombard rates now stand at 3 and 5 per cent respectively money market rates are

Andrew Fisher

Benchmerk yield curve (%)* 15/12/95 -- Month ago --4.50

expected to dip further.

Mr Kermit Schoenholtz, of Salomon Brothers, said repo rates should fall to between 3.25 and 3.5 per cent in the first quarter of 1996, reflecting low inflation and below-par economic growth. He expected low interest rates to persist next year.

Investor concerns about European Monetary Union should continue to prop up long-term Bund yields,

TOKYO

Bond prices are expected to fluctuate in a narrow band this week on buying by life assurance companies and profit taking by banks before

the March fiscal year-end. While prices have remained firm, further large lot buying by investors is unlikely, as interest is shifting to mid-term bonds, including bank lebentures.

"Most investors are now fearful of a sudden rise in market rates and are shortening duration," says Credit Suisse in Tokyo. Institutional investors aiready have a high portion of

bonds on their portfolios and are reluctant to increase their allocations - especially in view of the current low interest Interdealer trading figures in

November indicated that transactions of 10-year domestic bonds fell 11 per cent to Y21.730.1bn while trading in Treasury bills dropped 40.7 per cent to Y5,611.5bn because of a rise in buying operations by

the Bank of Japan Trading in bank debentures rose 8 per cent to Y904.5bn.

Meanwhile, concerns over deficit covering bonds may rise this week as the size of the issue next fiscal year becomes clearer.

Mr Kaoru Yosano, acting chairman of the Liberal Democratic party's policy affairs research council, called for a large amount of deficit covering bonds to make up for revenue shortages next ye

European Monetary Union

Lawyers may gain from conversion fall-out

Concerns are growing in some quarters of the capital markets about possible legal risks stemming from European Monetary Union (Emu). Two potential problems in particular occupied executives at banks and securities houses in the run-up to this weekend's Madrid summit of European leaders and finance ministers.

First, the European Commission's plan to convert bonds and other long-term financial contracts denominated in Europe's existing "currency". the European Currency Unit one to one - into the new currency, the Euro, has already given rise to controversy. That has been highlighted by a recent exchange between British lawyers and the International Primary Markets Association (IPMA), the bond dealers' trade association.

Second, there are fears that some long-term swap contracts involving currencies such as the French franc or the D-Mark could bring complex legal wrangles. According to the current timetable, clarified by this weekend's summit, all Emu members' currencies would are a holder of Ecu debt that is

emerged nearly two weeks ago

Because it is likely to be backed by the Continent's strongest currencies - the so-called hard core bloc - the new Euro should be stronger than the Ecu, which is based on a basket including weaker units such as the Italian Lira.

ences between the two might have economic repercussions. It will cost or save people a huge amount of money depending on where they stand in the market," says Mr Colin Ban-ford, Panel chief executive.

disappear in 2002. The Ecu-Euro controversy

when the UK's Financial Law Panel published a report questioning the plan to directly convert the Ecu into the Euro. The Panel, set up in 1993 by the Bank of England and the City Corporation to examine legal uncertainties that affect financial markets, is worried that the economic mismatch between the Ecu and the Euro could cause legal disputes.

"Nobody has focused on the fact that the economic differ-

One assumes the Euro will be a stronger currency. If you

fantastic news. You've loaned a soft currency and you are being repaid in a hard currency. But if you have borrowed in the old currency you lose out. Your obligations are automatically switched to a

harder currency.

The Panel is calling for more discussion of the issues and suggests the European Commission allows the Ecu to coexist alongside the new Euro, with the exchange rate between the two left to market forces. Otherwise, says Mr Banford, legal action could be triggered by borrowers seeking to protect themselves. "You can see US lawyers having a high old time," he says.

Bond dealers, however, have taken issue with the Panel's report. The International Primary Market Association (Ipma), which represents the interests of 100 international bond houses, said it was in favour of one-to-one conversion, arguing that the Panel "may not have given sufficient weight to the expectations of

Mr Cliff Dammers, secretary

general, says investors have dcomed the conversion plan and governments with outstanding Ecu bond issues have agreed to the one-to-one conversion. He says many private issuers of Ecu bonds have already swapped the proceeds, and will not be hit.

The association also says that to let the Ecu exist alongside the Euro "would caus confusion in the market". Not only would Ecu bonds be difficult to clear, their liquidity would decline, cutting the value of outstanding obligations and damaging the interests of Ecu bond investors. "Ecu bonds will be adrift. abandoned to a lonely existence with a short half-life."

Ipma says legislation at European and national level may be necessary to dispel uncertainty, but the Panel thinks this could create more problems than it solves.

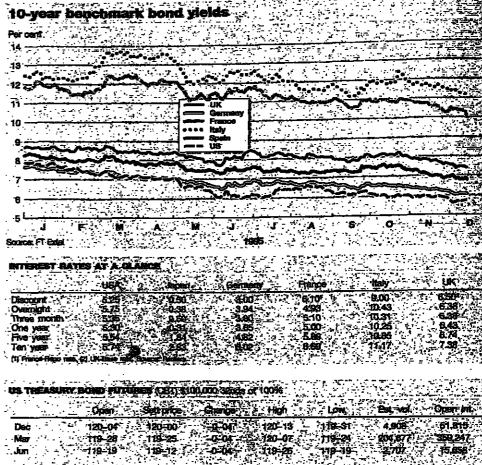
The future of longer-term financial contracts denominated in currencies that will cease to exist after 2002, the anticipated start for monetary union, is also causing concern The European Commission

currencies (such as the D-Mark or French Franc) into new "Euro" bonds and carry the same coupon. For bonds the process should be relatively straightforward, although interest rates are unlikely to converge smoothly and the markets could be subject to longed periods of volatility

in the run-up to Emu. However, the situation is more complicated in relation to the swaps contracts involving currencies such as the D-Mark. Traders downplay the problems. "No-one's worried about it. The market will take care of itself," said one bank's head of derivatives.

Nonetheless, there are fears that if such negotiations are unsuccessful, potential losers in such contracts could take legal action. Mr Dammers says dealers "don't want their freedom of contract abridged and Ipma firmly supports that, but sheer logistical problems may simply overwhelm the swap

Richard Lapper



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Budget-balancing efforts rock Wall St

the US Treasury's sudden attack on a number of its most esoteric products, launched as part of the government's efforts to reduce the budget

Issuance of products such as 100-year bonds, monthly income preferred securities (Mins) and trust-originated preferred securities (Toprs) has ground to a halt in the face of the proposals which were announced without warning on the afternoon of December 7.

Although the proposals have to pass Congress, the Treasury said they would take effect immediately. The day after the Treasury dropped its bombshell, Morgan Stanley had to postpone a \$200m 100-year bond issue it had launched for Monsanto, the chemicals company, only the morning before.

Under the proposals, types of debt which the Treasury regards as being more like equity would be taxed like equity. Interest payable on bonds with a life greater than 40 years or on some bonds which are repayable in shares would no longer be tax-deductible, sharply increasing the

Many securities firms, the

Securities Industry Association

and the Public Securities Asso-

cost to the borrower. Also hit would be companies which buy shares in other com-panies, especially in the form of preferred shares, as the tax treatment of the dividends the shareholders receive would be

seemed pejorative. The Treasury's view is that

howling over losing a few fees.

150 Salomon Brothers Morgan Stapley Goldman Sachs 500 150 100 Morgan Stanley

Underenter

ciation, have already begged Washington to reconsider. There is annoyance among

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Coca Cola Co.

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News Coro

some on Wall Street that the axe which could fall on the products was wielded by Mr Robert Rubin, the US Treasury secretary, a former co-head of Goldman Sachs.

Also angering investment bankers has been the way the proposals were made without any prior consultation and using language - referring to the changes as a closing of loopholes, for example - which to the issuers of such debt

if the budget deficit is to be eliminated over the next few years, then everyone has to share the pain. People living on welfare or those relying on Medicare and facing cuts in services may have little sympa-thy with fat cats on Wall Street

One Wall Street banker admits: "If this is the price we have to pay for a balanced budget then I am willing to pay it." After all, the prospect of a deal to cut the deficit over the next seven years has belued propel stock and bond markets

If issuance of the types of. securities which the Treasury plans to tax more highly were to stop completely, the effect on Wall Street profits as a whole would be relatively small. Estimates by Securities Data, the statisticians of the securities markets, suggest only about 2 per cent of Wall Street's disclosed fees come from the issues in question.

However, the Treasury's selection of products means a few firms could bear the brunt of the loss of business. Morgan Stanley, for instance, has been the most active underwriter in the century bond business, Goldman Sachs in Mips, and Merrill Lynch in Toprs and other products.

But such is the creativity of the Wall Street bankers that if one loophole closes, another can usually be found. And if borrowers need to raise money effect on business inw they will find other ways of and capital formation." doine it.

The real problem, as the rep-

changes would make it more expensive for the borrowers to raise money.

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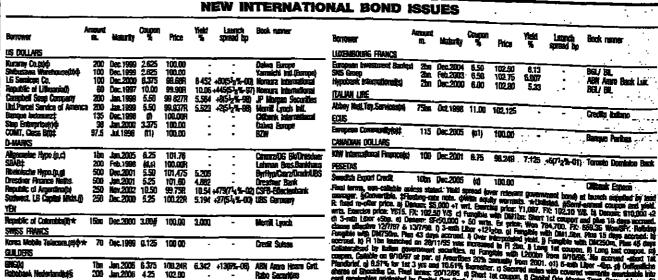
A 7 per cent coupon on a 100-year bond costs only 4.5 percent after tax if the interest is deductible. If it is not, the after tax cost is the same 7 per cent as the pre-tax costs. That is a big difference for an issuer.

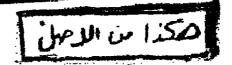
The SIA, for instance, has thundered at Washington, saying the initiative is "shortthis year, to Wall Street's sighted and misguided" because it could raise capital costs in the US. The SIA's chairman called the proposal a "more an ill-thought-out attempt at a quick fix than a coherent tax policy that encourages savings and lowers capital costs to fuel expansion and create new jobs".

The PSA, the trade association for the bond market. called the proposals "an attack" on capital formation at a time when this nation should be focusing its attention on increasing savings and investment".

When the dust settles, though, perhaps the greatest damage will have been done by the method by which the proposals were made, rather than their content. The sudden moving of goalposts leads to uncertainty. Or as Merrill Lynch said: "Sudden and capricious tax law changes have a chilling effect on business investment

Maggie Urry





Lisa Bransten

EQUITY MARKETS: This Week

All eyes on open market committee

*C1-MBER 18 1995

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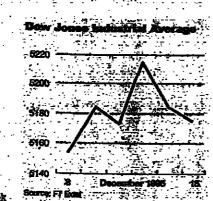
to Y904.5hu.

There are several pieces of important economic data due out this week, but the attention of the equity market will fall on tomorrow's meeting of the Federal Reserve's open market

Economists at Wall Street's biggest broking houses speni much of last week assessing their opinions about whether the Fed would cut the target interest rates this week and so benefit shares. Most of last week's data portrayed a

slowing manufacturing sector, but the Fed had expressed concern the week before about tightness in the labour market in some regions. Mr John Lipsky, chief economist at Salomon Brothers said: "Although a

new easing appears relatively certain no later than the January FOMC meeting, the case for an immediate move may not yet be compelling to all members of the FOMC." Economic data will be especially



important if the Fed opts not to cut rates, the market's attention will immediately turn to speculation about easier monetary policy in the new year. Also important this week will be tomorrow's figures on housing starts.

Economists expect construction will have edged up to 1.35m units from the 1.34m recorded in October. On Thursday figures on November personal income appear. These should help economists make assessme consumer spending over the holiday period. Economists are looking for a 0.2

per cent gain in November.

Market bulls pull in horns for Christmas

LONDON

interest rate cuts in the UK and Europe gave only a modest boost to shares in ondon last week. Although the FT-SE 100 index made

two intra-day all-time highs, investors already seem to have started the process of winding down for the Christmas holidays.

With little in the way of UK economic news or company results this week, the main interest of traders, when they are not involved in the Yuletide revels, will be the meeting of the US Federal Reserve's open market committee.

give a further boost to liquidity and send the markets off on their holidays in a happy mood. Traders can look back on a successful 1995 with Footsie nearly 19 per cent

ahead on the year and 23 per cent up on its January low. Shares have been well supported by

FT-SE-A All-Share index

gilts, with the yield on the benchmark 10-year issue down to 7.38 per cent on Friday; the yield ratio is just over 2. a point where shares are usually seen

As investors look ahead to 1996, their main concerns will be whether the slowing economy, which prompted last week's base rate cut, will earnings and whether the market will start to turn tail at some point, as the prospect of a Labour government comes closer and

OTHER MARKETS

PARIS

ft was not so much the fact of the French cut in interest rates on Friday as the timing that took the equity market by surprise, writes John Pitt.

After the move to reduce German rates by the Bundesbank the previous day, it had been expected France would follow suit - but the consensus was for later rather than sooner.

With the country still gripped by strike action, many analysts had felt the authorities would wait until the issue was resolved.

Nevertheless, the 25 basis point cut in the intervention rate had minimal effect on equities, being seen as just enough to keep pace with the round of interest rate cuts around Europe.

This week analysis are hoping that the market, which made little progress last week amid the general gloom, could stage a mini pre Christmas rally, with signs that the public sector dispute is now on

The government has made a number of concessions to union leaders and it remains to be seen if these will seriously undermine its commitment to reform.

ZURICH

A period of consolidation would be welcome this week after the market's 25 per cent climb since the start of the year to last Friday's all-time high close. Views on the longer term outlook are mixed. J.P. Morgan, for example, is taking profits on its previous upgrade of the Swiss market and switching the money into Italy, which, it believes, is discounting the bad news and could react positively to a

relaxation of monetary policy. But in Zurich, Bank Sal Oppenheim argues that even lower interest rates will make bond yields even more unattractive than at present while real estate will remain in the doldrums. Equities will become the only interesting investment vehicle. And for foreigners, the effect of a weaker Swiss franc, as the dollar recovers, will be more than compensated for by the progress of dollar sensitive

FRANKFURT

A oniet week, devoid of corporate news, is in prospect in the run up to Christmas without even the opportunity to speculate on an interest rate

cut after last week's move by the Bundesbank. Instead, says UBS, the focus should be on the US and whether the Fed will cut in response. Additional uncertainties could come from the expected gains of the Communist party in the Russian parliamentary

elections over the weekend. With support from lower interest rates, selling pressure on cyclical stocks should diminish in the course of the next few weeks. UBS continues to favour companies with a solid earnings base, given the persisting uncertainty about next year's economic outlook.

ISTANBUL

After a volatile week's trading, in which the Istanbul composite index fall by more than 7 per cent over three sessions, the market found some strength last Friday and closed the week with a session gain of 2 per cent. The approval by the European parliament last week of a Turkish-EU customs union had little effect on sentiment, with the "ves" vote having already een factored into prices. Attention is now concentrated

on the general election on Analysts feel the roling DYP

party will not do as well as had been anticipated some weeks ago, with some forecasts that the opposition Anap party will take a lead in the polls. As a result a coalition government between the Anap and one of the other parties, probably the DSP, is looking increasingly likely. Nevertheless, the charismatic prime minister, Mrs Tansu Ciller, has been

recoveries in fortune. But a change of government, market analysts believe, could give equities a boost in 1996. Among the leading members of the Anap is Mr Saracoglu, who could become a deputy prime minister. Until he resigned in 1993 he was the governor of the central bank and is held in high regard.

known to pull off remarkable

HONG KONG

Stock prices may well rise this week on speculation that the US Fed will cut interest rates. following the moves to trim rates in Europe, writes Louise

Reduced interest rates, fed through to Hong Kong via the currency peg with the US dollar, could serve to stimulate sluggish consumer spending and a static property market. Brokers are also looking for

a fillip tomorrow when a

luxury housing site is up for

auction. The site, in a plum

Mid-levels district on Hong Kong island, boasts an

unusually large area of 3,045 sq m, making it a prime target for the colony's big developers.
Auctions this year have failed to excite the property market, but brokers reckon the appeal and rarity of the Stubbs Road site could provide a ar-end boost. The winning hid is expected to come in at between HK\$209m and

TOKYO

While some investors hope the Nikkei index will hit 20,000 by the end of the year, analysts point out that heavy selling pressure exists around the 19,500 level. "Banks, corporate investors and public funds all want to sell around the level," says Mr Yasuo Ueki of Nikko Securities.

Many market participants believe that buying of bank shares by foreigners will be needed to take the 225 stock index up to the 20,000 level. This may be hard since most of the favourable news for the banks seems to be priced into the stock already.

Compiled by Michael Morgan

International offerings

CVRD sale shows limits of World Bank adviser rules

Morgan Stanley and SBC Warburg to hear that the World Bank is drawing up a list to which it lends on how to appoint financial advisers for their privatisation pro-

The two investment banks were mortified to learn last week that their consortium's bid to advise the Brazilian government on the billion-dollar privatisation of Companhia Vale do Rio Doce (CVRD), the metals mining giant, had been disqualified because the first part of their fee estimate was ruled to be too far below the

average, albeit by \$91,000. The decision to rule them out of the competition was all the more painful because it ame so soon after news that they had come a very close secand to the group led by Goldman Sachs in the technical part of the bidding process. Morgan Stanley and SBC Warburg have until today to appeal gainst the decision

The rationale behind the World Bank's rigid point-scoring procedure, which the Brazilian government is using is certainly commendable.

In a country where allegations of corruption are widespread, the government is making sure that the appointment of financial advisers for what is expected to be one of the most important equity offerings of 1996 is as transparent and objective as possible.

The Turkish and Peruvian rovernments are also following the World Bank guidelines for the privatisation of their telecoms companies. "With this technique, no-one can accuse them of lining their own or their friends' pockets," said one banker.

For the World Bank, the process gives it some control over how its money is spent. Although the much bigger success fee linked to the transaction will be paid out of the proceeds of the privatisation, the fixed-fee or retainer (on which Morgan Stanley and SBC Warburg came unstuck) will be paid with money lent by the World Bank.

cials acknowledge that the so-called "procurement guide-lines" which were drawn up a decade ago need to be amended now that 90 of the countries to which it lends are contemplating privatisations.

The existing guidelines were set up for awarding contracts for infrastructure projects, such as building roads, or for buying equipment, such as fleets of trucks. They were not intended for the more subjective judgment of appointing financial advisors and other consultants needed in the transfer of state assets into pri-

vate ownership.
Although officials would not give details of the new guides, which could emerge in draft form in the first quarter of 1996, they said one of the main aims would be to provide a standard formula for how investment banks are selected. Currently, the process is done ad hoc and differs from

region to region. For example the competition for the CVRD andate is not the same as the bidding for Turk Telecom where only those banks which ss the technical part proceed to the second round, where the lowest bid wins.

Another important consideration which the new guidelines would tackle is how to find the right balance between quality and price. "We need to revise the guidelines to make them more responsive to the privatisation business rather than the business of building dams," said one official.

But although weight will be given to investment banks' credentials and quality of their technical proposals, the overriding message from the World Bank is that price will decide. In particular, attention will focus on the correct level for contingency or success fees

charged by the banks. If the World Bank's ultimate aim is to get the best advice for the lowest cost, then Morgan Stanley and SBC Warburg should not have been disqualified from the CVRD process. It appears that they were caught to eliminate less-qualified banks from walking away with However, World Bank offithe mandate because they were

nominal or no fees at all. In addition, the banks' bids for the fixed-fee element of the financial proposal have not been compared to their bids for the "gross spread" or the success fee element.

The CVRD situation high lights why the World Bank needs to draw up a new set of guidelines which will avoid such unintended results in future privatisation competitions. But while it is under standable that the World Bank should give priority to "value for money", bankers fear that forcing them to compete too aggressively for the business will work against emerging

markets in the future. They note that privatisations in emerging markets are much riskier than in developed countries so fees need to reflect that. Privatisations from developed countries have not gone well on the whole this year because of the cautious response from international

The "stop-start" nature of privatisations in emerging markets is another worry for the bankers. Some leading investment banks are asking themselves whether it is worth pitching for business in some emerging markets and devoting the resources to preparing the deal because of the uncertainty about whether it will

ever get done.

If the first-division banks decide that emerging-market privatisations do not make commercial sense, most of the business will go to banks which might not have the strongest credentials but which are keen to break into the primary equity market.

Given the limited investor demand for emerging-market paper and the greater risks involved in such transactions, these countries need the best advice they can get if they want to pursue a successful privatisation programme. But if the World Bank imposes such limits that they can only pay peanuts, they will have to be content to have monkeys to do the work.

Antonia Sharpe

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RECEIPTS DUE 1997 ISIN CODE : X30037981353

For the period December 18, 1995 to June 18, 1996 the new rate has been fixed at 5,5125 % P.A.

Next payment date: June 18, 1996

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Coupon nr : 8

Amount : XEU 28 for the denomination of XEU 1 000

XEU 280 for the denomination of XEU 10 000.

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Payment Date	Coupon	Gross smount	Net amount (-15% text)	Net amount (-20% tax)			
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JP Morgan DEVELOPMENT FUND OF ICELAND (FRAMKV/AEMDASJODUR ISLANDS)

ablished under the laws of the Republic of Icela U.S.\$35,000,000 Floating Rate Notes 1997 Retractable at holder's option in 1995 Notice is hereby given that the Rate of interest has been fixed at 5,875% and that the interest payable on the relevant Interest Payment Date June 18, 1996 in respect of U.S.\$100,000 nominal of the Notes will be U.S.\$2,986.46.

NUTRICIA

Unigate PLC and its subsidiaries

have sold for a total of NLG 827,903,520 appears as a matte

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Global Co-ordinator

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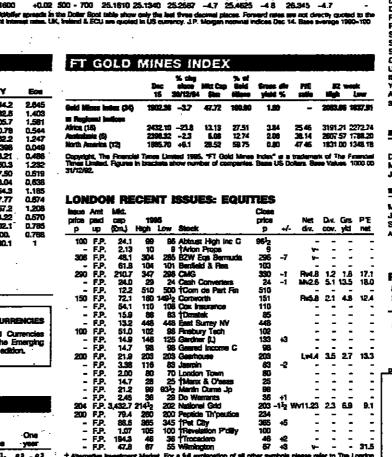
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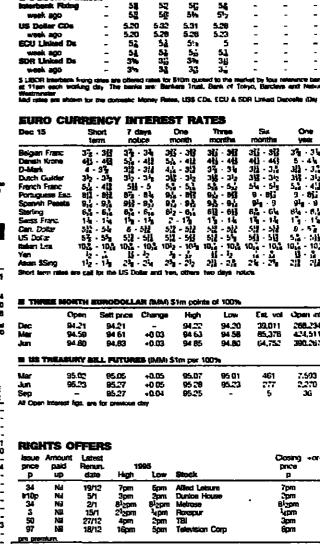
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FINANCIAL TIMES MONDAY DECEMBER 18 1995 *			
* <u></u>	CURRENCIES	AND MONEY	
POUND SPOT FORWARD AGAINST THE POUND Dec 15 Closing Change Bid/other Duy's Mid One month Three months One year Bank of mid-point on day spread high low Rate %PA Rate MPA Eng. lodge.	DOLLAR SPOT FORWASO : Dec 15 Closing Change mid-point on day	Bid/offer Day's cold. One mouth Three ma	inths One year JP Morgi MPA Rate MPA index
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Jun 0.7001 0.6992 -0.0024 0.7001 0.6990 666 2.646 1 mil 1.5857 1.5428 3 min 1.5940 1.5421 1 min 1.5940 1 min 1.	Markets page in today's edition.	- F.P. 14.7 98 98 Geered Income C 200 F.P. 21.9 203 203 Geerhouse - F.P. 3.38 116 83 Jasmin - F.P. 2.00 80 70 London Town	98 209 Lp4.4 3.5 2.7 13 83 -2 80
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- development in Asia
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- ★ How will fleet expansion be financed? ★ Joint manufacturing in Asia
- ★ Developing the infrastructure to meet future

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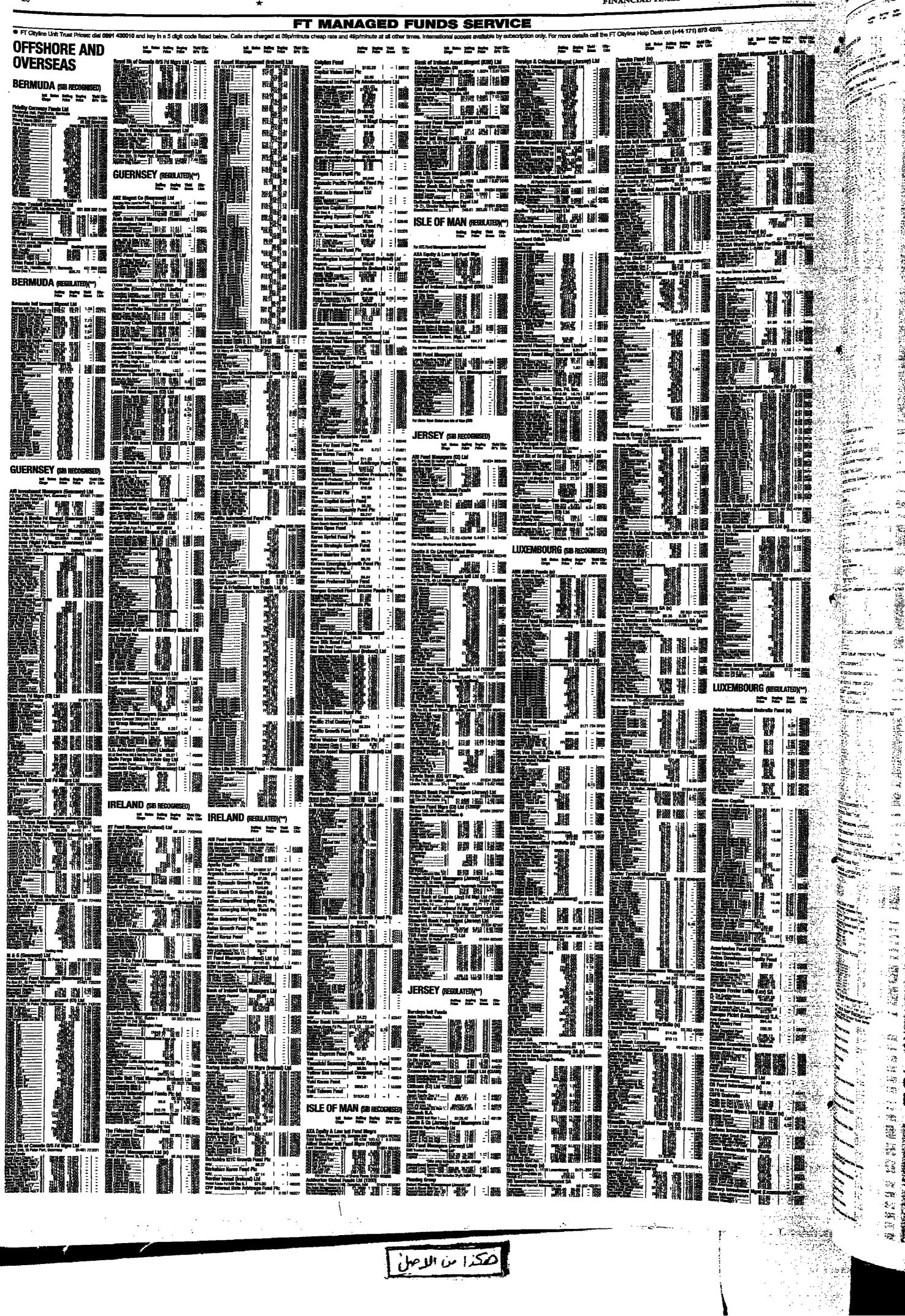
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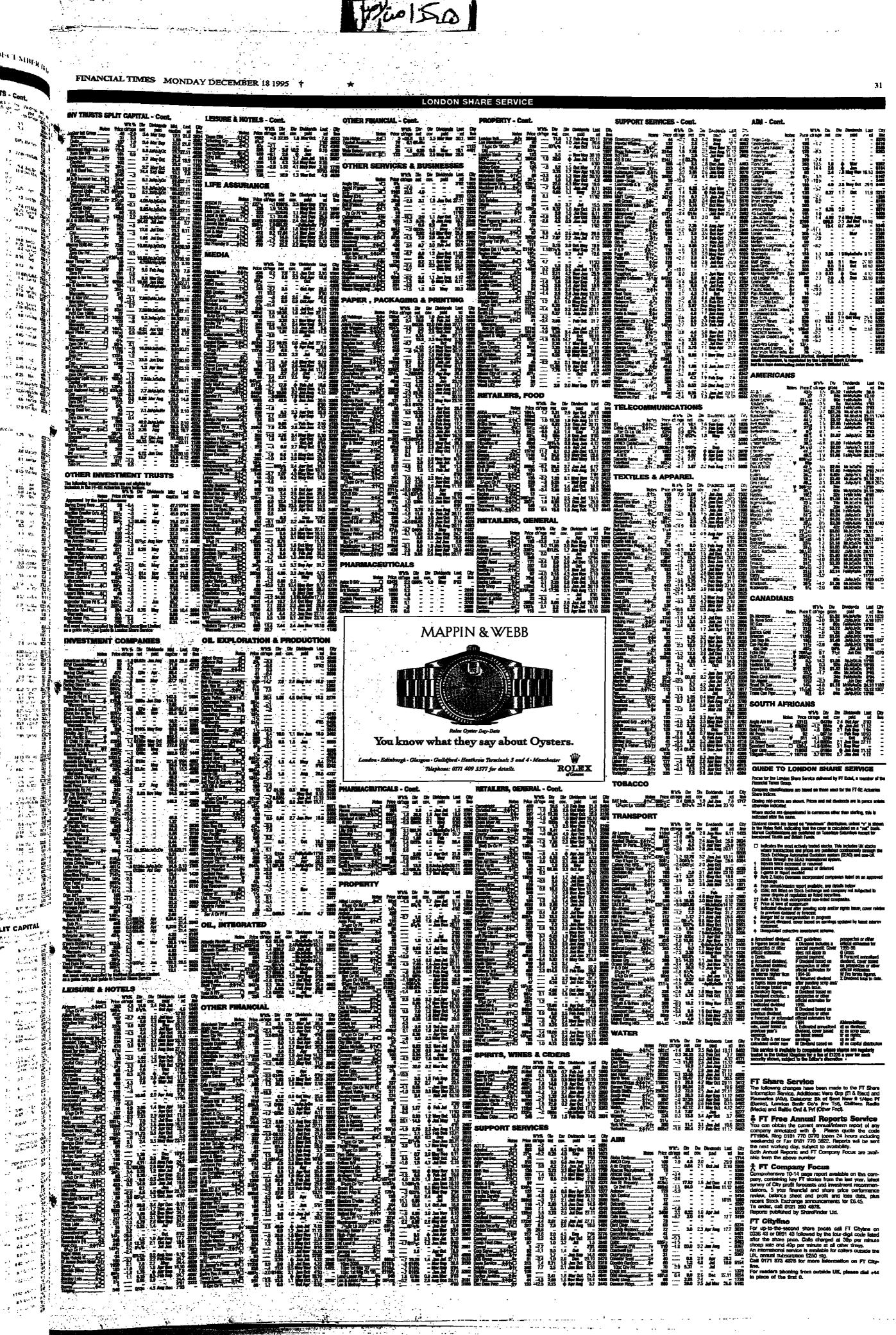
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MAN IN CLAMBER

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Spanish and Portuguese fishermen on Jan

The first hearing opens in the suit filed by

the Japanese prime minister, Tomiichi

governor, Masahide Ota, to sign lease

contracts for land used by US military

documents after an outcry from residents

of Okinawa, an island in southern Japan,

1. will also be discussed.

US bases in Okinawa

Murayama, to force the Okinawa

forces. Mr Ota refused to sign the

over the alleged rape by three US

servicemen of a 12-year-old girl. The

governor has called for the US bases to

Holidays

Holidays

FRIDAY

Malawi.

MONDAY

Nato forces enter Bosnia



Weather permitting, the first wave of 60,000 Nato troops is to arrive in Bosnia following the formal approval by the alliance, the United Nations and the rival Balkan

presidents of a comprehensive peace agreement for former Yugoslavia. The deployment is part of a one-year mission to preserve Bosnia as a unified state divided into roughly two ethnic parts. The national groups will maintain their own armies. Heavy snow and winter fog so far have slowed the despatch of advance teams, underscoring the slew of problems facing the Nato-led Implementation Force (IFOR). Meanwhile, in a series of meetings aimed at creating stability, a conference meets outside Bonn to outline steps for disarming the armies. The delegates will represent the contact group members, Nato and European Union countries, the former warring parties and, as chairman of the Islamic conference, Morocco.

EU to reform rice regime

European Union agriculture ministers discuss final details of the reform of the rice regime (to Dec 20). The Commission has proposed prices be lowered and compensatory payments introduced. However, rice-producing countries argue the reforms are too severe. The agriculture council will also discuss the extension of agrimonetary compensation to Finland and Sweden, as well as proposals for regulating the potato market.

Saleroom



The Oscar awarded to the writer Herman Mankiewicz for his screenplay of Citizen Kane comes under the hammer at Christie's in New York.

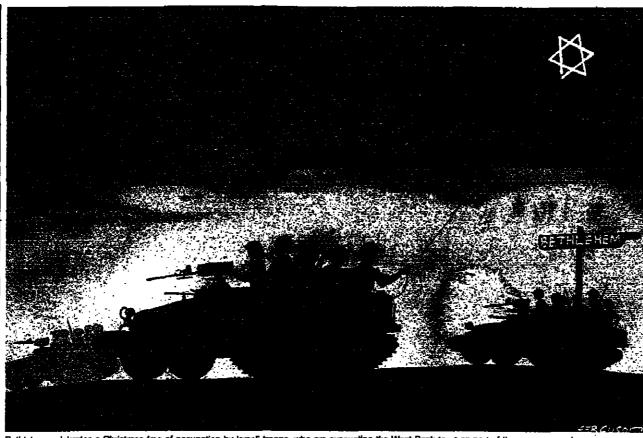
Bids of about \$200,000 (£127,000) are anticipated. Orson Welles's celebrated film, one of the most respected of all time, collected nine Academy Award nominations in 1942. However, this was the only Oscar it actually received.

Berisha visits Germany

President Sali Berisha of Albania begins a visit to Germany (to Dec 21), his second since elected in 1992. Talks are planned with leading politicians including Theo Waigel, finance minister. Mr Berisha will be hoping to secure German investment and further support for economic reforms Also on the agenda will be the status of 20,000 Albanians in Germany, who are mostly illegal immigrants but send home large amounts of foreign exchange.

Former president on trial

The former South Korean president, Roh Tae-woo, and eight business leaders go on trial for bribery charges connected with the nation's biggest corruption scandal. Mr Roh is accused of accepting nearly \$400m (£253m) from 35 leading corporations for government contracts during his 1988-1993 term. Businessmen



Bethlehem celebrates a Christmas free of occupation by Israeli troops, who are evacuating the West Bank town as part of the peace accords

indicted include the chairmen of the Samsung and Daewoo industrial groups.

Australia-Indonesia pact Australia and Indonesia sign their first

formal defence alliance, promising to hold regular ministerial meetings on strategic matters and to take concerted action when necessary and "appropriate". The agreement will be signed in Jakarta by the foreign ministers, in the presence of President Suharto of Indonesia and Paul Keating, Australia's prime minister.

Holidays Israel, Nigeria.

TUESDAY

OECD releases report

The Organisation for Economic Co-operation and Development releases its half-yearly report on the state of the world's economy. The analysis of the OECD, which acts as a think tank for 25 industrialised nations, will be read closely for its judgment about whether world growth is slowing or not. In recent months the OECD has downgraded its forecasts for countries such as Japan.

FOMC considers rate cut

The Federal Reserve's policy-making open market committee meets in Washington to discuss US interest rates. Against a backdrop of sluggish economic growth and subdued inflation, Fed governors and regional presidents are thought to be considering a cut in short-term interest rates of a quarter or half a point. Some economists expect the Fed to cut rates modestly even if Congress and the White House have not reached agreement on a

deal to balance the federal budget.

Rabin murder trial starts

The murder trial starts of Yigal Amir, charged with assassinating Yitzhak Rabin, the former Israeli prime minister. Three other alleged participants in an assas-sination conspiracy are to be tried later.

FT Survey Morocco.

WEDNESDAY

Dini outlines EU proposals

Italy's prime minister, Lamberto Dini, is to present his proposals for Italy's six-month presidency of the European Union to the Senate. Italy, which takes over the stewardship from Spain on January 1, is expected to launch a far-reaching review of the 15-nation bloc's institutions.

Hopes for BCCI settlement



Luxembourg's Superior Court is to announce whether it will sanction the withdrawal of an appeal by four former employees of the failed Bank of Credit and

Commerce International. The withdrawal could finally open the way for a global settlement for all creditors. The bank's liquidators hope the court ruling will help clear the way for a first dividend to creditors of 20p in the pound by late 1996. Although all parties to the settlement are optimistic, progress has been dogged by legal hitches.

The settlement is based on a \$1.8bn (£1.13bn) offer from the government of Abu Dhabi, the bank's principal

shareholder. The total number of creditors of the BCCI, which failed in 1991 with debts of \$10bn, is still unknown.

Draft budget in Japan

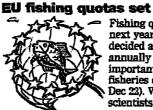
Japan's foreign ministry is expected to issue a draft budget, proposing a rise of just over 2 per cent in general spending to Y43,000bn (£275bn) for the year starting April. This would be the smallest increase in seven years and results from the low tax revenues from the weak economy. Even with the small rise, the ministry expects to issue at least Y10,000bn of deficit bonds to cover a shortfall.

It is proposed defence spending should rise by less than the average, to the anger of the dominant Liberal Democratic party. The increase in the foreign aid budget, the world's largest, would be 3 per cent.

FT Surveys Saudi Arabia, Slovakia.

Holidays Indonesia, Malaysia.





 Fishing quotas for next year are to be decided at what is annually the most important EU fisheries council (to Dec 22). With scientists proposing massive quota

reductions to conserve stocks, British fishermen would face cuts of 50 per cent for some species. Policing the western waters around Ireland, to be opened to

close and said he would not sign the documents even after a court order.

> Canada, Guatemala, United States. **SATURDAY**

Polish president sworn in Poland's new president, Aleksander Kwasniewski, a former communist, takes office against vigorous protests from the right-wing opposition. Lech Walesa, the outgoing head of state who has yet to congratulate Mr Kwasniewski on his

narrow election victory, says "formal and moral reasons and respect for the republic" prohibit his presence at the swearing in. The opposition argues Mr Kwasniewski committed an offence by lying in his official election document that he had a university degree.

Holidays Japan (Emperor's Birthday, Saturday).

SUNDAY

Arafat at Bethlehem mass

Yasser Arafat, the Palestinian leader, will celebrate Christmas Eve mass in Bethlehem's Church of the Nativity, marking the first Bethlehem Christmas free of Israeli troops of occupation since the Six Day War in 1967. Mr Arafat will try to rally Palestinian Christians behind his campaign to be elected president of the Palestinian Council on January 20. Bethlehem is the sixth West Bank town to be left by Israeli soldiers under the peace

General election in Turkey Turkey's 34.4m voters go to the polls in an

election that may transform the Islamic fundamentalist Refah party into the country's largest party, possibly taking one quarter of the seats in the 550-member parliament. Although Refah has few chances of taking power - because mainstream parties will form a coalition government - the elections could end the short political career of Tansu Çiller, who became prime minister in 1993. She called snap elections hoping to win a parliamentary majority for her True Path conservative party.

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Monday 25 Holidays: Main markets closed for Christmas Day.

Tuesday 26

Cuban parliament: Cuba's National Assembly holds its second ordinary session of the year. On the agenda will be the 1996 budget, in which government spending is likely to be reined in further.

Horse racing: King George VI Chase. Kempton Park racecourse, England.

Cricket: Fourth Test match, South Africa v England, Port Elizabeth, South Africa (to Dec 30).

Holidays: Main markets closed.

Wednesday 27

Israel-Syria peace talks: Israel and Syria resume peace talks at a secret location near Washington after a six-month break. The talks, focused on an Israeli withdrawal from the occupied Golan heights in return for full peace with Syria. are a fresh effort to resolve the conflict blocking a comprehensive Middle East peace. The talks, under US auspices, will peace. The tanks, under US auspices, will seek to break the procedural logiam and pave the way for a second round in early January as well as an eventual summit.

Holidays: Botswana, Canada, Ireland, United States, Vatican

Thursday 28

Chess: Hastings centenary congress, Hastings, England (to Jan 8). Holidays: Costa Rica. Nepal.

Friday 29

Holidays: Brazil, Canada, Costa Rica, Guatemala, Mexico, Peru, United States.

Saturday 30



Aids lottery: The deadline falls for participation in a US lottery which will award its winners treatment experimental Aids with the latest drug, Ritonavir. The

drug is intended to block HIV, the Aids virus, from reproducing. Only 2,000 patients will be chosen to receive the drug. Holidays: Costa Rica, El Salvador, Philippines.

Sunday 31

Palestinian election: Palestinians kick off a 21-day election campaign for their first elections. Voters will elect 83 members of a legislative council in 16 constituencies. A separate poll will be held for the council's president. Election officials expect up to 1,000 candidates. Holidays: Bangladesh, Oman, Pakistan,

Compiled by Simon Strong Fax: (+44) (0)171 873 3194.

Other economic news

Monday: Britain's public sector borrowing requirement is expected to have been £2.8bn last month after October's repayment. German inflation figures published this week are expected to show a rise in the annual rate of wholesale price inflation but a drop in producer price inflation.

Tuesday: Economists think that US chain-weighted gross domestic product grew at a faster rate in the third quarter of the year than it did in the second quarter. US housing starts are forecast to have picked up slightly last month. Wednesday: The UK's visible trade delicit with countries

outside the EU is thought to have narrowed slightly last month. UK M4 money supply growth is expected to have slowed. Thursday: The UK is expected to record a current account balance of payments deficit in

the third quarter of the year. The Federal Reserve Bank of

Philadelphia's index of busi-

ness activity is forecast to have risen this month. Friday: Italy's unemployment rate is forecast to have fallen slightly in October. Analysts expect US consumer confidence to have picked up

slightly this month.

Statistics to be released this week

Released	Country	Statistic	Forecast	Actual
Mori -	Japan	Dec whitsale price indx 1st 10 day	s -	•
Dec 18	UK	Nov public sector borrowing req.	\$2.8bn	-£1.3bn
	Canada	Oct manufacturing new orders	.0.1%	-0.5%
Tues	Japan	Oct overall pers. consumer exp**	0.1%	-0,2%
Dec 19	Japan	Oct pers. cons. expendit, workers		2.4%
	Japan	Oct income - workers**	-	1.2%
	Japan	Nov money supply (M2/CD)**	3.1%	2.8%
	Japan	Nov broad liquidity**	-	3.7%
	US	Q3 GDP preliminary	3.2%	3.0%
	US	Revised GDP (1993-1995)	-	-
	US	Q3 GDP deflator preliminary	2.0%	2.0%
	US	Q3 after-tax corporate profit	0.8%	0.8%
	US	Nov housing starts	1.35m	1.34m
	US	Nov building permits	-	1.4m
	US	Johnson Redbrook w/e 16 Dec	-	-2.0%
Wed	France	Oct industrial production*†	0.1%	-1.8%
Dec 20	France	Oct manufacturing production*†	0.3%	-2.0%
	UK	Nov build.soc.net new com.ts	£3.0bn	\$2.9bn
	UK	Nov trade ex-EC	-£950m	-£1182m
	Spain	Q3 GDP	3.0%	3.2%
	US	Oct trade: goods and services	-\$9.0bn	-\$8.3bn
	US	Oct gds and servs-export (BoIP)	\$67.0bn	\$67.2bn
	US	Oct gds and servs-import (BotP)	\$76.0bn	\$75.6bn
Thurs	UK	Q3 GDP	0.4%	0.4%
Dec 21	UK	O3 GDP**	2.1%	2.1%

Released	Country	Statistic	Forecast	Actual
	UK	Q3 savings retio	- ,	9.3%
	UK	Q3 current account	-£1.9bn	-£2,4bn
	US	Nov personal income	0.2%	0.3% (estim
	US	Nov pers consumer expenditure	0.6%	0.1% (estim
	US ·	initial ctaims w/e.Dec 16	365K	341K
	us ·	State benefits w/e Dec 9	- '. '.	2,566K
	Canada	anada Oct wholesale trader		. 1.2%
	US	Dec Philadelphia Fed andex		7.9
	US	Nov treasury budget	-\$36.obn	-\$22.8bn
	US .	M2 w/e Dec 11	\$1.0bn	-\$0.9bn
Fri .	France .	Oct trade balance†	FFr7.0bn	FFr7.9bn
Dec 22	US	Dec Michigan sentiment final		.90.5
	Canada	Oct real GDP - factor cost	0.1%	0.2%
	Canada	Oct fix-weight employee earnings	2.5%	2.6%
-	Germany	Dec Bavaria Col(new)**	-	1.5%
	Germany	Dec Hesse Col (new)**		1.6%
During t	te week		·	_
	Germany	Nov producer price index pan-Ger	1.4%	1.6%
	Germany	Nov producer price index pan-Ger	0.196	-0.1%
	Germany	Nov import prices*		-0.8%
	Germany	Nov import prices**	·	-0.2%
	US	Oct US trade balance with Mexico	•	-\$1.29bn
	Japan	Dec trade balance (1st 10 days)	-	\$2.7bn
	Mexico	Oct retail sales"		-28%

ACROSS 1 Bill on leaving, has the last word on the subject (5,7)

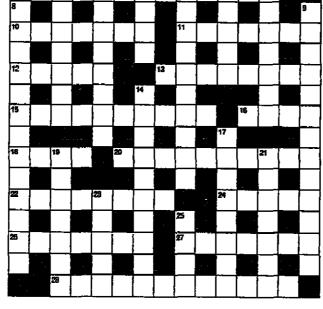
- 10 Bring out another edition of Old Portuguese Currency and prosecute (7) 11 Polish girl with spots (7)
- 12 Brother puts song back into father (5) 13 Well, in France, there's noth-
- ing about a two yearly cycle 15 Makes smaller spy glasses (10) 16 Turn your back on reformed Germans? (4)
- 18 Detect the leading nationalists of southern Europe (4)
 20 Make a bid to bring back part
 of love's entanglement (10)
- 22 Left over American sples join up in a non-professional way 24 Weariness of English sister,
- shipwrecked on island (5) 26 Painting over exterior poses
- in the passages (7) 27 Exit result? (7) 28 Moneylender's demand, 21 Managed a cry for help about reduction of £1 at the French hospital (5.2.5)

2 First letter (7) 3 Difficult to understand how the sea burst out (8) Make a statement in Caver-Recording a different lot of

- errors that need amending 6 Ban on football's return in the
- town (5)
 7 Everything is in the Town Hall at a somewhat higher
- 8 Teacher, it lands so awkwardly in the black and red Fellow spiralling out of con-trol with EC drop in values
- 14 Stopped the redemption with warning about dole's working 17 Relation moving from the

east (8)

19 Run into another purist and get a foothold (7) first of many demands for money (7)
23 Farewell to a foreign god (5)
25 Fellow gets record turnover from the game (4)



MONDAY PRIZE CROSSWORD

No.8,947 Set by ADAMANT

"month on month, "year on year, ""otr on otr, †seas adi. Statistics, courtesy MMS International

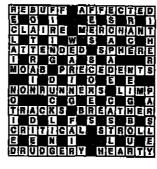
A prize of a Pelikan New Classic 390 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday December 28, marked Monday Crossword 8,947 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday January 1. Please allow 28 days for delivery

Name Address Winners 8,935 Solution 8,935

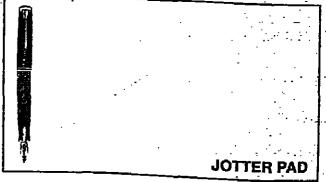
Joe Tabone Adami, Malta H.J. Jolley, Athens D.C. Godfrey, Richmond, Sur-

rey R. and J. Gedling, Epsom, Surrey Robert Fiengo, New York Greg Wagland, London SW1

The next Monday Prize Puzzle will be on Monday



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